Annual report

2014

Regulatory office for network industries

ÚRSO

RONI

[A Table of Contents]

[Foreword]

With all provisions of the Third Energy Package applied in Slovakia in 2014, the regulation was carried out by the Act No. 250/2012 Coll. on Regulation in Network Industries (hereinafter reffered only as "Act on Regulation" or "Act No. 250/2012 Coll.") in full compliance with the European Union legislation. In addition, the Regulatory Office for Network Industries (hereinafter reffered only as "Office") worked to ensure that specific conditions of energy industries in the Slovak Republic, the electricity and gas market operation and consumers rights in particular, were observed.

Since its inception, the primary objective of the Office has been to set transparent and balanced rules of operation in the energy market. Despite this, some questions have been recently raised over the dampening effect of the regulation of energy supplies on competition and the whole energy market. Given that the past experience has proved that the state regulation in the energy industries is still required to prevent market distortions and protect a consumer, such views can be understood as purposefully business-driven. On top of that, energy prices are fixed as the maximum ones giving suppliers a room to compete by offering a better price and quality of their goods and services to a consumer.

The end of 2014 was marked by turbulent events stemming from the findings and recommendations stated in an energy chapter of the Country Report Slovakia 2015 (National Report), which is annually published by the European Commission.

In its immediate response, the Office rejected any claims and objections of the European Commission as unfounded and biased. It managed to prove that the regulatory framework in Slovakia is absolutely predictable and all the decisions of the Office in the energy market are fully transparent and analytically justifiable. Subsequently, the dispute resulted in an update to the report in which the shortcomings and recommendations for improvement in the energy industry have been omitted.

Highly transparent performance of the Office has always been and shall remain the utmost priority, even without the intervention of the European Commission. As this report is not intended solely for professional, but also for the general public, it contains as much of usable data and information as possible. More detailed data and processes for obtaining of the factors applied (constants, variables, intervals, etc.), justification for their use and description of the formulae used in calculation of tariffs and final energy prices are available on the official website of the Office at www.urso.gov.sk.

Ing. Jozef Holjenčík, PhD.
chairman of the Board and chairman of RONI

Ing. Miroslav Čelinský
vice-chairman of RONI (he isn't member of the Board)

Ing. Radoslav Naništa
vice-chairman of the Board

Ing. Vladimír Čepko
member of the Board

JUDr. Ing. Ján Hijj, PhD.
member of the Board

Ing. Ján Horkovič
member of the Board

Ing. Milan Krajčovič
member of the Board

Ing. Viliam Mikuláš
member of the Board

1 [The Electricity Industry]

The Electricity Market

Suitable conditions for real development of the electricity market ("the market") in the Slovak Republic were created in 2012 by adopting new legislation pursuant to the Directive 2009/72/EC of the European Parliament and of the Council. The impact of these changes on the scope and method of price regulation became apparent in 2014. This was primarily due to the fact that the secondary legislation issued by the Office clearly laid down the rules for all market stakeholders, the essential elements of contractual relations, defined model business terms and conditions and limited speculations with service level agreements (service contracts on a regulated entity that performs a regulated activity in the electricity or natural gas industry and is a part of a vertically integrated company) and created a venue for intensive development of international relations. The expansion of market coupling serves as an evidence of the positive development. All the aforementioned had a positive impact on formation of the single electricity market.

Network regulation

Unbundling of production and supply of network services (transmission and distribution) was implemented in the Slovak Republic in 2007. The process was completed pursuant to the Directive 2009/72/EC of the European Parliament and of the Council, certifying an operator of the transmission system in 2014. In the same year, supervision over the implementation of the conditions of the certification of the transmission system operator was conducted. No severe shortcomings were identified.

Technical functionality of the network

The transmission system operator, reporting regularly on network development plans to the Office and Ministry of Economy, is held responsible for technical functionality of the transmission system. A ten-year network development plan, which the transmission system operator submits to the Office for approval, is the most significant document. This obligation was adopted in the Slovak law during alignment with the relevant legal regulations of the European Union, namely the Regulation No 714/2009 of the European Parliament and of the Council on conditions for access to the network for cross-border exchanges in electricity. The transmission system operator shall annually prepare a ten-year network development plan, consult it with stakeholders and issue a report on fulfilment of the previous ten-year network development plan and submit it to the Office. The Office shall consult the ten-year network development plan with system users and enable them to make justified comments, review its compliance with the requirements for implementation of investments in the transmission system and network development plan for the whole European Union and may request the transmission system operator to amend it.

The results of the consulting are publicly available on the official website of the Office. Information on the outcome of the consulting, including the requirements of the current and potential users of the system on delivery of investments in the transmission system within the Ten-Year Development Plan of the Transmission System for the Period 2014–2023 issued by Slovenská elektrizačná prenosová sústava, a.s., the transmission system operator, was published by the Office on 13 June 2014.

Quality standards of electricity transmission and distribution, set in the Office Decree, also ensure the technical functionality of the system. The Decree defines the quality standards and their indicators, methods of assessment, publishing, archiving, and method of calculation and payment of compensation payments for non-compliance with the quality standards. The compensation payments are paid to an electricity market stakeholder by the regulated entities for failing to comply with the quality standards. The paid out compensations do not represent economically eligible costs and affect the regulated price for transmission and distribution of electricity.

Performance of the quality standards, evaluated annually, encourages the regulated entity to improve the quality of the services provided.

Auxiliary and system services

Auxiliary and system services are a key element ensuring security and stability of the transmission system.

Upon the request for a range of individual types of auxiliary services, the Office set total projected costs of purchasing all types of auxiliary services from certified auxiliary service providers as well as the

maximum price for providing primary power control, secondary power control, tertiary power control in EUR per unit of a disposable electric capacity and the maximum annual cost of ensuring the provision of remote voltage control and reactive power and the blackstart in EUR and the maximum price of offered positive regulatory electricity or the minimum price of offered negative regulatory electricity with activation of a particular type of auxiliary service.

The price for acquired regulatory electricity per unit of electricity in EUR was set on the basis of bid prices of used power equipment submitted by providers of auxiliary services as follows:

a) The highest price of a source providing regulatory electricity per quarter-hour, if the regulatory electricity is positive, but not more than the maximum price set in a price decision per unit of electricity in EUR,
b) The lowest price of a source providing regulatory electricity per quarter-hour, if the regulatory electricity is negative, but not less than the minimum price set in a price decision per unit of electricity in EUR.

In Slovakia, the basic range of electricity consumption is ensured between a producer and customer or via an electricity trader. The regulatory electricity is purchased by a transmission system operator.

The transmission system operator purchases various types of auxiliary services required to ensure system services to support auxiliary service providers that meet the conditions set in the technical specifications and business terms and conditions specified in the Operational Order to achieve the minimum costs of the provision of auxiliary services while under transparent and non-discriminatory contractual terms and conditions. Purchasing is conducted in an open, transparent and non-discriminatory manner to all service providers, whereas the transmission system operator preferably uses bids from installations within a defined territory.

Technical capability of auxiliary service providers is demonstrated by a certification measurement defined in the technical conditions.

The competition in the market of auxiliary services is sufficient.

The following table presents the trend in the provision of auxiliary services in 2012–2014:

The trend in the provision of auxiliary services in 2012–2014

Indicator/year	2012	2013	2014
No. of auxiliary service providers	26	24	24
No. of bids by auxiliary service providers	2 791	4 062	2 844
No. of contracts concluded with auxiliary service providers	33	29	31

The comparison of regulatory electricity supplies in 2013 and 2014 (MWh)

Type of regulatory power/year	2013	2014	change 2014/2013
Primary Power Control +	7616	6800	-10,71 %
Primary Power Control -	7561	6 688	-11,55 %
Secondary Power Control +	176 648	176 301	-0,20 %
Secondary Power Control -	237 181	210 182	-11,38 %
Tertiary Power Control 3 min. +	3 542	1 960	-44,66 %
Tertiary Power Control 3 min. -	3 497	2 654	-24,11 %
Tertiary Power Control 10 min. +	3 151	2 473	-21,52 %
Tertiary Power Control 10 min. -	183	607	231,69 %
Tertiary Power Control 30 min. +	2 047	850	-58,48 %
Tertiary Power Control 30 min. -	6 706	2 839	-57,66 %
Decrease in demand	542	301	-44,46 %
Increase in demand	0	0	N/A
Import of emergency electricity supply	0	0	N/A
Non-guaranteed regulatory electricity +	0	0	N/A
Non-guaranteed regulatory electricity -	0	0	N/A
Positive regulatory electricity	193 546	188 685	-2,51 %
Negative regulatory electricity	255 128	222 970	-12,60 %

Source: SEPS

Electricity transmission and distribution, tariffs

In 2014, the Office Decree No. 221/2013 Coll. on establishing a price regulation in the electricity industry, issued pursuant to the Article 40 of the Act No. 250/2012 Coll., continued to be applied.

The Office addressed the key regulated entities to solicit their ideas to help improve the market development and learn about their implementation experience during the previous period. Subsequently, a proposal

for amending the Decree, which was subject to legislative proceedings where the regulated entities and obligatory subjects could have raised their comments on the draft amendment, was submitted. All comments were discussed and those contributing to development of the market were incorporated in the final draft of the amendment. The amended Decree was then discussed at a meeting of the permanent working committee of the Ministry of Finance for Financial Law. After incorporation of comments raised by the committee, the amended Decree was published in the Collection of Laws under No. 189/2014 and entered into force on July 1, 2014. The entire discussion and its outcome were publicly available on the portal of the laws of the Slovak Republic. The amendment is related mainly to the adjustment of the eligible costs of performing regulated activities, purchase prices of electricity from renewable energy sources and highly efficient production of electricity and heat and adjustment of the correction factor in the transmission and distribution adjustment formula used in calculation of the maximum price for access and distribution of electricity in the local distribution network. The amended Decree was applied to the price proceedings conducted by the Office in 2014 for the year 2015.

In 2014, a so-called price cap method under the approved regulatory policy for the period of 2012–2016 was applied in the electricity market. The incentive-based price regulation method provides system operators with an opportunity to retain a higher profit provided that they act effectively and optimize their costs.

The following network tariffs under the price decision of the Office for the transmission system operator are applied to invoicing for the transmission of electricity to the electricity customer or producer directly connected to the transmission system:
- a tariff for reserved capacity (€/MW/year),
- a tariff for transmitted electricity (€/MWh),
- a tariff for losses in the transmission via electricity transmission system (€/MWh),
- a tariff for system services (€/MWh).

The following network tariffs under the price decision of the Office are applied to an electricity customer or producer directly connected to the distribution system at high and extremely high voltage level:
- a tariff for electricity distribution without losses including electricity transmission – a component for reserved capacity (€/MW/month),
- a tariff for electricity distribution without losses including electricity transmission – a component for transmitted electricity (€/MWh),
- a tariff for losses in the transmission via electricity transmission system (€/MWh),
- a tariff for system services (€/MWh).

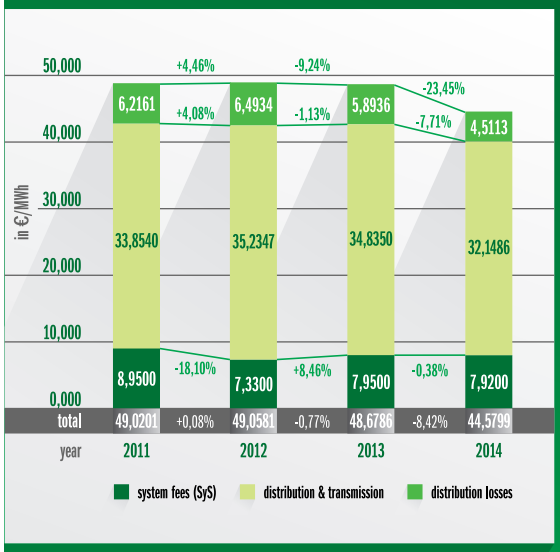
The following network tariffs under the price decision of the Office are applied to an electricity customer or producer directly connected to the distribution system at low voltage level:
- a tariff for electricity distribution without losses including electricity transmission – a component for reserved capacity (€/A/month),
- a tariff for electricity distribution without losses including electricity transmission – a component for transmitted electricity (€/MWh),
- a tariff for losses in the transmission via electricity transmission system (€/MWh),
- a tariff for system services (€/MWh).

In the area of price regulation of the respective activities, the Office issued in 2014:
- 339 price decisions on access to the transmission system and electricity transmission, access to the distribution system and electricity distribution, network connection, household electricity supply and the last resort electricity supplier,
- 101 decisions on electricity price for setting an additional fee for electricity producers using combined heat and electricity production,
- 2,458 decisions on electricity prices for setting an additional fee for electricity producers using renewable energy sources.

The final amount of the network fees is primarily affected by the regulatory asset base (a set of assets used to perform regulated activities) and the amount of eligible operating costs set in the Decree. When setting the tariffs, the Office proceeded correctly. A regulated entity was requested to clarify or supplement the submitted price proposals. Prior to issuing a decision, the entity was requested in writing to study the supporting materials on the basis of which the Office shall issue a final price decision. Each regulated entity shall be entitled to appeal the decision to the Regulatory Board in the second instance. Should the entity lose the appeal, it may appeal to the court.

Development and structure of the regulated fees is shown in the following chart:

Development and structure of regulated fees for users of distribution system



It is evident from the data that a trend of declining regulated fees, which began in 2013, continued throughout 2014. The falling prices of electricity as a commodity in the electricity market and the subsequent impact on covering losses in the systems and system operators' own consumption played a significant role in reduction of the regulated fees. In addition, a method of the regulation and implemented amendments to the regulatory legislation, namely the Office Decree No. 221/2013 Coll. also affected the fee reduction.

The trend of rising energetic efficiency of the system operators followed by further lowering of the eligible costs under the relevant Decree is expected to continue.

In addition to the tariffs described above, the final invoice for network fees includes other fees not related to the system operation, but collected by a system operator in accordance with the applicable law.

Contribution to the National Nuclear Fund

A levy pursuant to the Article 7 Section 1 Letter b) of the Act No. 238/2006 Coll. on the National Nuclear Fund for the Decommissioning of Nuclear Installations and the Management of Spent Fuel and Radioactive Waste ("Nuclear Fund Act") as amended represents another invoiced item within the supply and distribution of electricity. The levy is not a revenue arising from the system operators' business under the Article 7 Section 6 of the Nuclear Fund Act.

Excise duty

The invoice includes a payment of excise duty that is not set by the Office. These items are not subject to regulation within the responsibility of the Office, but are paid as a final price listed in an electricity invoice.

Tariff for system operation ("TSO")

A tariff for system operation (€/MWh) is a fixed price tied to a technical unit considering a proportional part of costs of electricity produced from domestic coal, electricity produced from renewable energy sources and electricity produced from high-efficiency combined production and activities of an organizer of the short-term electricity market; the tariff applies to the final consumption of electricity.

The Office promotes electricity produced from renewable energy sources and high-efficiency combined production by setting fixed prices for electricity produced from renewable energy sources ("RES") and high-efficiency combined production depending on the technological process of electricity production, a date of launching a facility into operation, an installed capacity and a mode of financing. The set prices of electricity produced from RES and high-efficiency combined production have a major impact on the value of the applied tariff for system operation. With connection of each new energy facility producing electricity from RES or high-efficiency combined production of electricity and heat to the system, the tariff rises, which had a significant impact on the amount of the final electricity price for all electricity customers in 2014 and beyond.

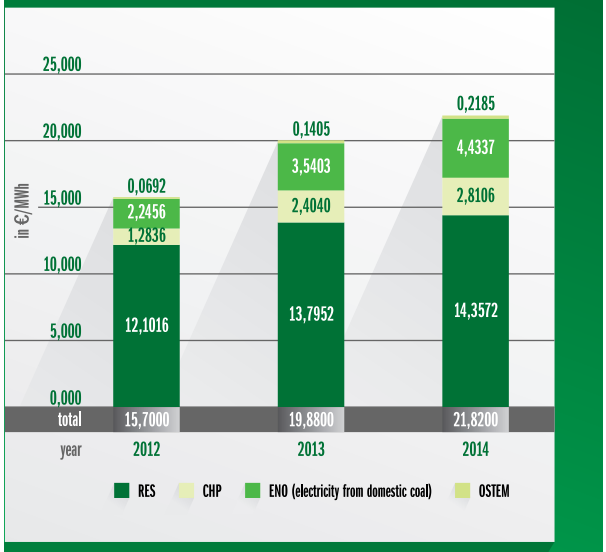
The reason for the high increase in the tariff for system operation primarily owed to intensive construction of renewable energy sources and their required support in compliance with the applicable EU directives and also high-efficiency combined heat

and electricity production, promotion of electricity production from domestic coal (in compliance with the Directive No. 72/2009/EC) and the costs of the organizer of the short-term electricity market, which significantly contributes to the liberalization of the electricity market in the defined territory.

The Office has constantly drawn attention to the adverse effects of uncontrolled development of RES support and insists that every member state of the Union has to define its own energy mix.

Development of the tariffs for system operation is shown in the following chart:

Development of the individual components of tariffs for system operation (TSO)



The rising tariff for system operation owes to stronger promotion of RES and combined high-efficiency electricity and heat production as well as an increase in the amount of electricity produced from facilities put into operation in the previous years, the operation of which has not been fully utilized yet. Another important factor affecting the increase in the tariff for system operation is a decrease in the price of active electricity in the world markets. Since all sources of RES and combined high-efficiency electricity and heat production are supported mainly by a so-called surcharge, which is a difference between the market price of electricity and the electricity price set for a particular technology, it is inevitable that with the falling world market prices, the surcharge rises, which results in a higher tariff for system operation through which the sources for the payment of the surcharge originate. This factor has an impact not only on the promotion of electricity from RES and combined high-efficiency electricity and heat production, but also on the support of electricity produced from domestic coal. The increase in costs associated with OKTE, a.s., the organizer of the short-term electricity market, is related to new responsibilities that the organizer is obliged to implement in the electricity market in the Slovak Republic under the applicable law (central data warehouse, settlement of differences, etc.).

Cross-border issues

In 2014, the Office cooperated in the matters related to cross-border trading with respective regulators and the Agency for Co-Operation of Energy Regulators ("ACER") pursuant to the Directive No. 2009/EC/714 in the region of Central and Eastern Europe ("CEE region").

In the cross-border capacity allocation and congestion management on the cross-border profiles, SEPS, a.s., Slovak transmission system operator, complies with the rules governing the Electricity Market Rules and the Transmission System Operational Code approved by the Office. In 2014, the capacity of cross-border transmission system interties ensured sufficient stability and security of the system not only in the Slovak Republic, but also in the European Union.

Revenues from congestion management fees collected by SEPS, a.s. reached EUR 29,541,356.10 in 2014. The Office was monitoring use of the revenues pursuant to the Article 16 (6) of the Regulation No. 2009/EC/714 and concluded that all the revenues of the transmission system operator resulting from the allocation of interties were used to ensure the actual availability of the allocated capacity and maintain or increase capacity of interties via investments.

In terms of ensuring stability and security of the transmission system, an issue of unplanned flows, so-called loop electricity flows, arising from the physical nature of the interconnected power systems, has become more challenging. The phenomenon is caused by

differences between the physical and trade flows on cross-border interconnections. The physical output flows are determined by a location of production capacity and a place of electricity consumption. Electricity produced from RES in the Northwest Europe and especially in Germany also flows through the transmission systems of neighbouring countries and, consequently, through the transmission system in Slovakia to the Southern Europe with higher deficiency creating thus bottlenecks within the electricity infrastructure. Due to unpredictability of the loop and parallel electricity flows, safety of the transmission system operation with impending short-falls is at risk as well as potential restriction of cross-border business opportunities, an increase in the internal load of transmission system and increasing losses in the transmission system.

Since 2014, optimal solutions to resolve the issue have been sought after. The issue has also been brought to the attention of the European Commission. Given that wind energy will continue to play an important role in meeting the objectives of the new energetic policy of the European Union, it is believed that effective international measures and solutions to reduce the issue will soon be identified and implemented.

A market coupling project is leading to the formation of a pan-European electricity market. In our CEE region, the project began with linking markets of the Czech and Slovak Republic in 2009. The cross-border profiles between the Czech and Slovak Republic on one hand, and the Slovak Republic and Hungary on the other, a daily capacity was allocated via implicit auctioning as a part of the common interconnected short-term market of these countries, a so-called trilateral market coupling, using the method of calculation of available capacity since September 11, 2012. 4M market coupling that integrates Czech, Slovak, Hungarian and Romanian daily electricity market was successfully launched in November 2014.

In the 4M market coupling project, systems developed for the target European model of daily electricity market (“target model") have been implemented. The European model of price coupling simultaneously sets the quantities and prices in all price bands based on the principle of a marginal pricing under the ACER framework guidelines on capacity allocation and congestion management in the CEE region.

The method allows for simultaneous trading on power exchanges in participating countries up to the available transmission capacity. The main benefit of the market coupling represents more efficient allocation of available cross-border capacities. The amount of electricity traded on interconnected markets contributes to higher reliability of electricity supplies, higher market liquidity and optimal price volatility.

On 1 January, 2012, the Government Directive No. 440/2011 Coll. amending the Government Directive 317/2007 Coll. laying down the rules for the electricity market ("Government Directive") came into force. The Directive was supplemented by a system of GCC, i.e. a system of cooperation of synchronously interconnected transmission system operators in order to eliminate mutual secondary regulation in opposite directions and a related impact on the provision of auxiliary services and regulatory electricity.

Purchasing of regulatory electricity is performed by the transmission system operator under a contract made with a provider of auxiliary services, or a supplier of regulatory electricity. The transmission system operator may only supply regulatory electricity by automated activation of regulatory electricity with the parameters of the secondary output control via management information system of the transmission system operator’s dispatching in cooperation with neighbouring transmission system operators within the GCC system and at a price set in a price decision of the Office or via emergency assistance from neighbouring transmission system operators.

The regulatory electricity purchased by the transmission system operator is booked as secondary regulatory electricity at a special price set by the Office during evaluation, clearing and settlement of the deviation.

A revenue from the introduction of GCC is divided in a ratio specified by the Office in price proceedings; a part of the revenue is retained by Slovenská elektrizačná prenosová sústava, a.s. while the remaining part is used to reduce tariffs for system services.

The actual impact of the regulatory electricity purchased under the GCC system in 2014 resulted in the revenue of EUR 7,696,766 earned by the transmission system operator.

Competition Promotion

The wholesale market

The Office may only create the legislative conditions and monitor their compliance in the wholesale electricity market. Pursuant to the enabling provisions of the Act on the Regulation, the Office continued to apply related generally binding regulations of the Decree No. 221/2013 Coll., establishing a price regulation in the electricity sector as amended by the Decree No. 189/2014 Coll. and the Decree No. 24/2013 Coll. laying down the rules of operation of the internal electricity market and rules of operation of the internal gas market as amended by the Decree No. 423/2013 Coll.

Electricity supply is not regulated. A final price is solely shaped by the market.

Prague PXE; product: F PXE SK BL CAL-t+1; from 01/2014 to 12/2014; average price: €35,42/MWh

Despite the wholesale market not being regulated, a market stakeholder with sufficient financial strength might be able to manipulate it. For this reason, REMIT was issued to control or rather monitor to help detect and prevent such efforts. REMIT is the regulation No. 1227/2011 of the European Parliament and of the Council on wholesale energy market integrity and transparency that came into force on 28 December 2011. The related implementing regulation entered into force on 7 January 2015. REMIT establishes a framework for monitoring wholesale energy markets and defines market abuse in the form of market manipulation or attempted market manipulation and insider dealing. Effective from 1 September 2012, the Act on Regulation implemented REMIT and authorized the Office to keep the register of stakeholders in the electricity and natural gas market for the purpose of monitoring the wholesale electricity and natural gas market and also to examine suspected cases of the market abuse and impose sanctions in case of a violation.

In accordance with the implementing regulation, stakeholders in the wholesale energy market are obliged to register with the National Register administered by the Office and report transaction data within the set deadlines. In 2014, the Office launched preparations for keeping the register of the stakeholders in the electricity and natural gas market.

In 2014, the major electricity market stakeholders in the Slovak Republic were the following entities:

- Slovenské elektrárne, a.s. (“SE, a.s.“) – a dominant electricity producer that generated 73.28% of electricity from its own sources in the Slovak Republic in 2014. Electricity production in the volume of 19,972 GWh covered 70.43% of electricity demand in the territory of the Slovak Republic. An installed capacity of its own facilities amounts to 4,520 GWh.
- Supported producers of electricity from renewable energy sources and high-efficiency combined heat

and electricity production. It is estimated that the amount of electricity produced from RES incl. the surcharge and high-efficiency combined heat and electricity production reached 2,780 GWh and 1,794 GWh in 2014, respectively.

- Slovenská elektrizačná a prenosová sústava, a.s. ("SEPS") – an exclusive holder of national electricity transmission permit and operator of the national transmission network. The company also performs the tasks of energy dispatch centre (ensuring the full balance in the territory of the Slovak Republic)
- OKTE, a.s. – an organizer and evaluator of the short-term electricity market, ensures the clearing, assessment and settlement of deviations in the territory of the Slovak Republic.
- Západoslovenská distribučná, a.s., Stredoslovenská energetika - Distribúcia, a.s., and Východoslovenská distribučná, a.s. – sole operators of the regional distribution systems ("RDS") in the respective defined territories with more than 100,000 offtake points connected. In addition, there are other 160 active licensed holders of electricity distribution that run local distribution systems ("LDS") in manufacturing and non-manufacturing companies with fewer than 100,000 offtake points.
- Other 458 entities licensed to conduct business in the electricity market in 2014.

The retail market

The Act on Regulation introduced the price regulation of electricity supply to vulnerable customers such as households and small businesses. The price regulation of electricity supply to vulnerable customers is governed by the Office Decree No. 221/2013 Coll. establishing the price regulation in the electricity sector.

In 2014, the price regulation of the electricity supply was applied to electricity supply to:

- households,
- small businesses,
- the last resort supplier regime.

Household electricity supply

The price regulation of electricity supply to households is governed by the Office Decree No. 221/2013 Coll. establishing requisites of a price proposal by the regulated entity and also a method for calculating the maximum price for electricity supply to households. The Office shall review the price proposal and issue a decision on the prices for electricity supply to household customers in individual components of the proposed rates.

The price for electricity distribution, including electricity transmission and electricity losses in transmission and the price of electricity losses in the distribution of electricity, the tariff for system services and the system operation according to the price decision, which rates for access to the distribution system and electricity distribution for the distribution system operator that the household customer is connected to approved or determined in, are added to the rate for electricity supply charged by the electricity supplier.

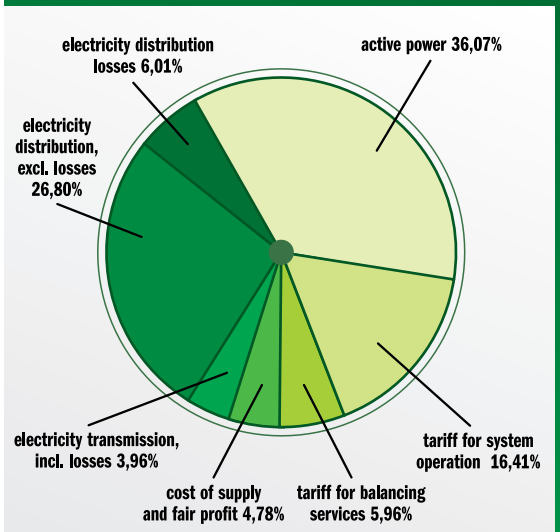
For 2014 the Office set the maximum prices for household electricity suppliers actively doing business in the Slovak Republic and set the conditions for their implementation. The maximum prices for household electricity supplies are made of two components – a monthly payment per an offtake point and the electricity consumed in the low band or the high band. Household electricity supply is divided into eight rates.

The Office always sets the maximum prices in its decisions. As a part of their business activities, suppliers offer various discounts and benefits to their customers. On its website, the Office provides a so-called price calculator to assist any customer in selecting the most appropriate electricity supplier depending on the customer's estimated demand and the price approved for such customer.

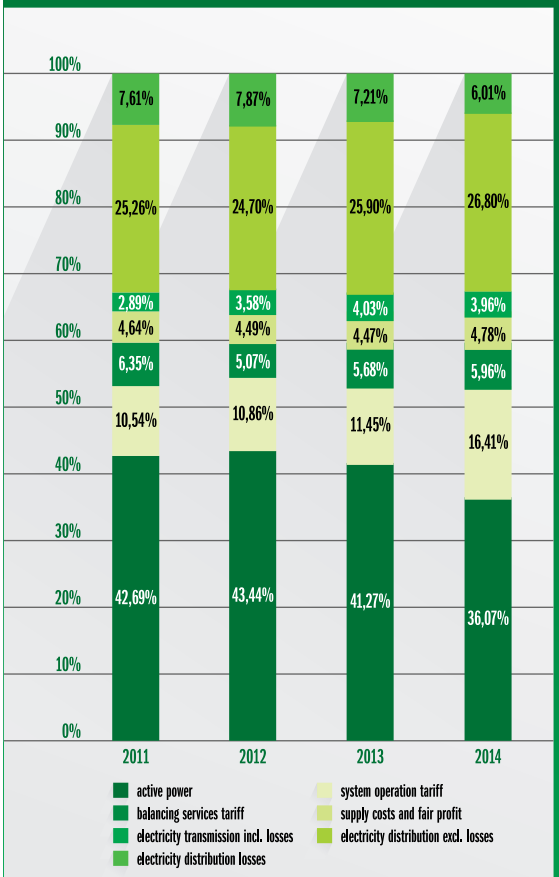
The reference parameters for setting the maximum price for household electricity supplied for 2014 were the arithmetic average of the daily prices of the official exchange rate list, published by the power exchange PXE (POWER EXCHANGE CENTRAL EUROPE) on its website, the product of F PXE SK BL Cal-t for the period between January 1 and June 30 2013, the coefficient up to 12 % of planned electricity load curve diagram for households and the costs of the deviation related to the household electricity supply.

Based on the above mentioned circumstances, the structure of household electricity supply prices was as follows:

A structure of electricity prices for households in 2014



Comparison of the structure of final electricity prices for households in 2011–2014



The shares of the major electricity suppliers in the electricity market for households as follows:

Shares of household electricity suppliers in 2014

Indicator/year	unit	2013	2014
ZSE Energia	GWh	1 977,00	1 912,30
SSE	GWh	1 466,00	1 404,00
VSE	GWh	1 096,00	1 086,00
SE Predaj	GWh	3,20	3,10
ČEZ	GWh	131,30	132,10
Magna E.A.	GWh	23,80	24,70
BCF	GWh	3,80	2,70
Slovakia Energy	GWh	83,50	190,30
Pow-en	GWh	0,60	1,00
GEON	GWh	1,90	1,90
Energie2	GWh	4,30	29,20
UTYLIS	GWh	1,10	2,00
ŽSR	GWh	2,00	1,90
SPP	GWh	63,40	159,80
total	GWh	4 857,90	4 951,00

Electricity supply to small businesses

The price regulation is applicable to a regulated entity that supplies electricity to small businesses. The Office Decree specifies requisites of a price proposal submitted by a regulated entity and a method of calculating the maximum price for electricity supply to a small business. The Office shall review the price proposal and issue a price decision on electricity supply to a small business specifying individual components of the proposed rates.

The need to regulate the supply of electricity to small businesses stemmed from the recent opening of the electricity market. The price deregulation did not lower the prices and costs of electricity to customers, but the opposite. The regulation of final prices to small business customers has stabilized the energy prices since the recent liberalization of the market in Slovakia has not directly translated into lower prices. As a part of consistent application of the EU law by the Office, it is authorized to the price regulation of small businesses in compliance with the rights defined in the Third Energy Package to the EU member states, namely the right to a fair price for all participants in the electricity market. Protection of both small business customers and households in Slovakia does not contravene the European law.

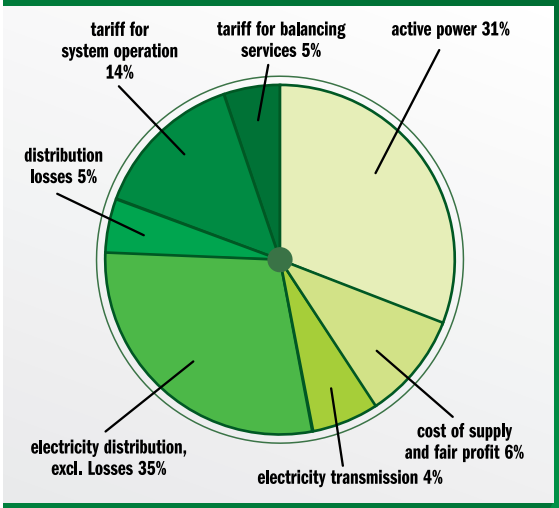
As the Office sets the maximum prices, the price regulation of small businesses has no impact on the energy market; neither does it harm competition in the market for energy supply to small businesses. The price regulation of small businesses guarantees competition more than prices originated in the free market environment where customers are still not able to make informed decisions.

The choice of a supplier by a customer is not limited at all since each electricity supplier in the Slovak Republic operates in the whole territory of the country providing thus the customer with the same right to choose any supplier. The price regulation guarantees eligible costs and fair profit to the suppliers to small businesses.

A small business is defined as an end customer with total annual electricity consumption in all of its off-take points up to 30,000 kWh for the year preceding the year which a respective price proposal is submitted for. Electricity supply to small businesses is divided into eleven price rates. The Office issued 108 price decisions related to electricity supply to small businesses in 2014.

The reference parameters for setting the maximum price for electricity supplied to small business for 2014 were the arithmetic average of the daily prices of the official exchange rate list, published by the power exchange PXE (POWER EXCHANGE CENTRAL EUROPE) on its website, the product of F PXE SK BL Cal-t for the period between 1 January and 30 June 2013, the coefficient up to 12 % of planned electricity load curve diagram for small businesses and the costs of the deviation related to electricity supply to small businesses. Based on the above mentioned circumstances, the structure of the average electricity prices supplied to small businesses was as follows:

A structure of electricity prices for small companies in 2014



Shares of electricity suppliers to small companies in 2014

Indicator/year	unit	2013	2014
ZSE Energia	GWh	166,30	174,90
SSE	GWh	109,00	111,40
VSE	GWh	88,90	90,00
SE Predaj	GWh	0,40	0,40
ČEZ	GWh	77,90	71,60
BCF	GWh	1,80	1,40
Slovakia Energy	GWh	40,10	43,30
ELGAS	GWh	0,90	1,30
Energie2	GWh	0,60	2,90
UTYLIS	GWh	0,01	0,05
ŽSR	GWh	0,60	0,50
SPP	GWh	0,10	0,90
total	GWh	486,61	498,65

Electricity supply to other customers

Under the Act on Regulation, the Office is not authorized to regulate a final price for the electricity supplied to other end users. Such customers are not regulated and their final electricity price electricity is mainly derived from the market price of electricity and their choice of a supplier. They are fully responsible for their final price of electricity. In this segment, the Office only creates the conditions and the regulatory environment to avoid any disruption to the market equilibrium and to ensure that no entity abuses its position in the open electricity market.

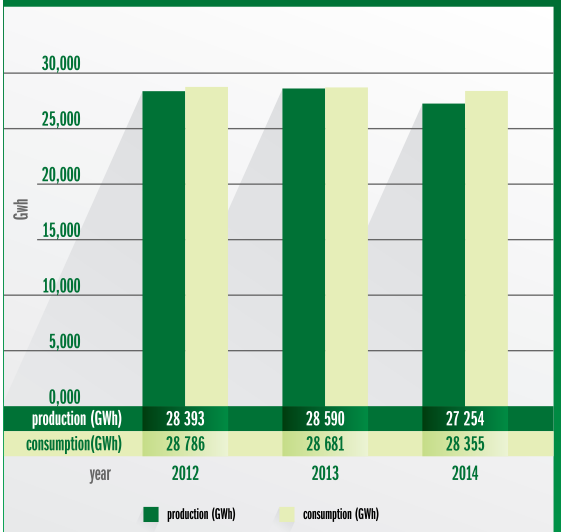
Shares of the key suppliers in the electricity market and related data are shown in the following table:

Shares of electricity suppliers to non-household customers in 2014

Indicator/year	unit	2013	2014
ZSE Energia	GWh	4 194,60	3 935,00
SSE	GWh	2 839,40	2 607,10
VSE	GWh	1 657,90	1 665,80
SE Predaj	GWh	1 948,60	1 922,90
ČEZ	GWh	1 271,50	1 316,40
BCF	GWh	14,40	20,40
Magna E.A.	GWh	365,90	404,10
Slovakia Energy	GWh	19,20	15,20
Pow-en	GWh	73,80	93,30
GEON	GWh	8,60	7,70
ELGAS	GWh	208,80	405,80
Energie2	GWh	4,10	39,50
ŽSR	GWh	475,80	479,70
SPP	GWh	24,50	63,30
total	GWh	13 107,10	12 976,20

According to data provided by SEPS, a.s., the transmission system operator, development in the total production and consumption of electricity was as follows:

The total production and consumption of electricity



Consumption in the defined territory means the amount of electricity determined as a sum of the total electricity produced within the defined territory and imported electricity from which exported electricity is deducted. The data chart shows a decrease in electricity production and consumption within the defined territory in 2014. This was caused by a lower demand owing to higher energetic efficiency and also orientation of customers to foreign producers of electricity in case of a decline in production. These trends are expected to continue in future.

Electricity supply by the last resort supplier

The Office defines the criteria for selection of the last resort supplier and selects the last resort supplier.

The price regulation applies to the supply of electricity by the last resort supplier to offtake points located in households and outside of them.

The electricity price regulation is performed by determining the method of calculating the maximum price for the last resort electricity supplier.

If electricity supplied by the last resort supplier is associated with electricity supply and included in the rate

for electricity supplied as the last resort, the electricity supplier of the last resort will add the price for electricity distribution and transmission including losses in transmission and distribution of electricity, the tariff for system services and the tariff for system operation in line with the price decision in which prices for network access and distribution of electricity by an operator of the distribution system, which the relevant offtake point is connected to, were approved or set.

The last resort supplier is obliged to deliver electricity to customers connected to the distribution system and whose supplier is no longer able to supply electricity or the process of electricity supplier switching has been suspended and, at the same time, electricity supply has not been ensured in any other way.

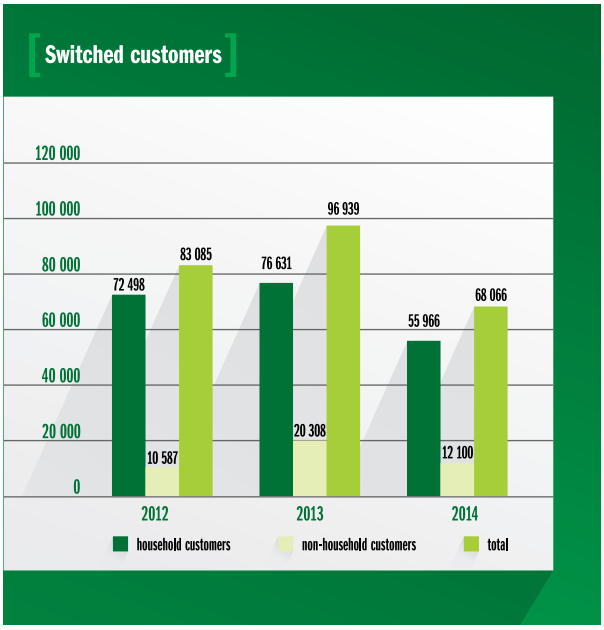
Throughout 2014, the last resort supplier regime was employed only in two cases where two small alternative suppliers (PB Power Trade, a.s. and PBPT Holding, a.s.) ceased to perform their obligations in the defined territory of Západoslovenská distribučná, a.s., Stredoslovenská energetika - Distribúcia, a.s., and Východoslovenská distribučná, a.s., the operators of distribution systems, under the applicable law and their commitments related to electricity supplies to end customers were assumed by the last resort suppliers.

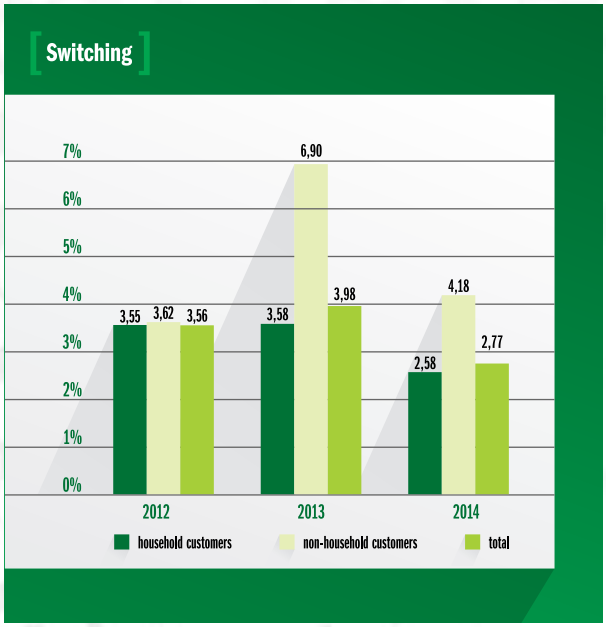
Switching

When switching an electricity supplier, a price and quality of services (consulting, personal attitude and individual offer, contractual terms, comprehensive services related to electricity supply, etc.) play the most important role. The current practice and experience prove that tariffs of almost half of the customers are unfavourably set and the customers could achieve significant savings on electricity supply.

To review the level of liberalization of the electricity and natural gas market, a coefficient in % called switching, which is a ratio between a number of offtake points that changed a supplier of electricity or natural gas and a total number of offtake points in a given year, is used. As a part of monitoring of openness of the energy market, the EU collects the switching data from the member states and publishes them in ACER reports ("European Agency for the Cooperation of Regulatory Authorities in Europe").

The following table shows a total y-o-y decrease in both household and off-household customers. The overall decrease can be attributed to the fact that customers interested in changing a supplier have already done so in the previous years as well as the fact that in many cases a new supplier was contracted for several years, which resulted in staying with the same supplier for the contracted period of time. In addition, a bankruptcy of several alternative suppliers contributed to fewer changes of a supplier (the last resort supplier regime applied). Confidence in alternative suppliers has been reduced as a result. To promote switching among customers, higher awareness needs to be raised. This has been significantly supported by the Office publishing the electricity price calculator on its official website to help guide customers in their decision-making process.





Monitoring of transparency including compliance with the related obligations and efficiency of the open market and competition

In addition to the price regulation, the Office issued the Decree No. 24/2013 Coll. laying down the rules for operation of the internal electricity and natural gas market pursuant to the Act on Regulation No. 250/2012 Coll. The decree defines the rights and obligations of the electricity market stakeholders and the conditions for operation of the liberalized electricity market in Slovakia. The decree has introduced the measures aimed at fostering transparency of the electricity market and defined the conditions for the creation of data storage warehouse and the central invoicing system.

The Office has always complied with the applicable law, every law is subject to its own detailed scrutiny, and all proposed and implemented actions are reviewed for their impact on the electricity and natural gas market. Studies and analyses are produced on the basis of data provided by the regulated entities and mutual communication.

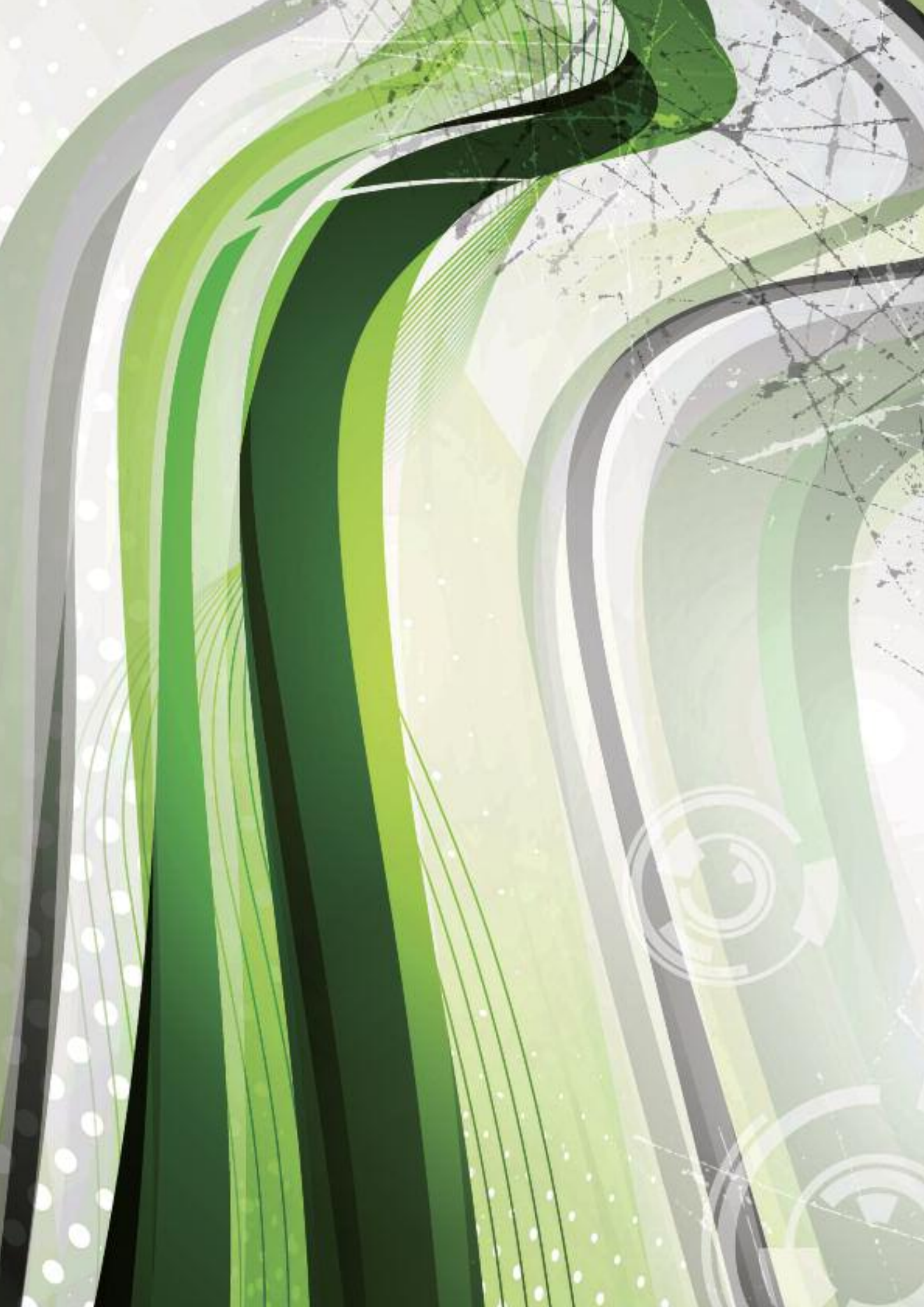
The Office sets tariffs in accordance with the European law; all decisions of the Office are consulted with particular entities that have the opportunity to raise a comment before a decision is issued. Methods of setting the network fees included in price decisions are subjected to interdepartmental discussion process, in accordance with the applicable law and are publicly available. All legislative and information materials are published on the official website of the Office.

Throughout 2014, the Office continued to approve operational codes issued on the basis of model operational codes of distribution system. The Office reviewed and approved 62 requests for operational codes submitted by the system operators. All approved operational codes have been posted on the official website of the Office and are now available to the general public and namely the users of particular systems governed by the approved operational codes.

Pursuant to the Act 250/2012 Coll., the Office is authorized to approve business terms and conditions for an electricity supplier providing a universal service. Throughout 2014, the Office continued to approve business terms and conditions issued on the basis of model business terms and conditions of electricity supply. The Office issued 105 approved decisions on the business terms and conditions of electricity supply in 2014. All approved business terms and conditions are posted on the official website of the Office and are now available not only to the particular providers of the universal service systems (electricity suppliers), but also to the general public.

In 2014, the Department of Electricity Regulation received a total of 170 motions from consumers both in written and electronic form. The majority of the motions related to electricity supplies to non-residential premises and apartment houses (including the electricity supply itself), the tariff for system operation, the tariff for system services, the maximum reserved capacity of electricity producers, connection to the distribution network, invoicing of the regulated fees and the last resort supplier regime.

On its official website, the Office published all relevant data concerning the electricity market, and in many cases beyond its obligations in order to help stakeholders in the electricity market. In addition, the Office drew attention to many obligations of the market stakeholders on its website or via direct electronic communication. These activities helped meet the needs of market participants in a non-discriminatory and open manner.

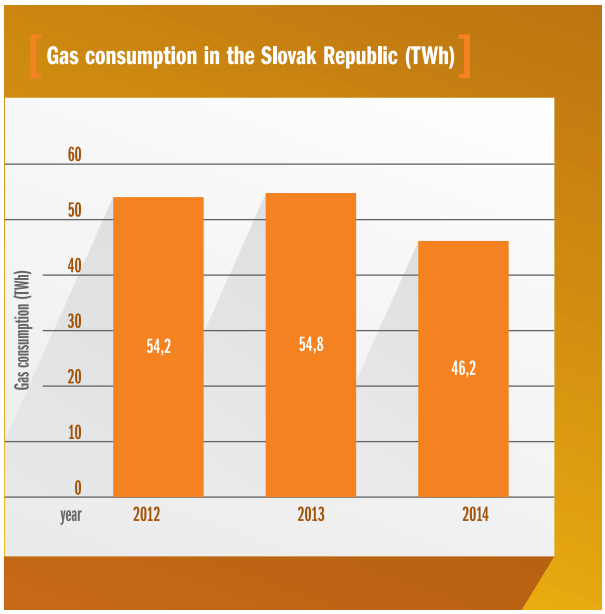


2[The Gas Industry]

The Gas Market

The gas market in the Slovak Republic remained stable in 2014, too. The structure of the gas suppliers was not practically changed. While two companies stopped operating in the market, another one was established, although it is only active in the area of gas supply to households. With regard to the size of the local gas market in 2015 no significant increase in the number of gas customers or that of gas suppliers is expected in the Slovak Republic.

The natural gas consumption by gas end-users in the Slovak Republic totalled 46,2 TWh in 2014. A y-o-y decrease in the gas consumption reached 15,7 %. The following diagram reflect the developments in the natural gas consumption in the period 2012–2014.



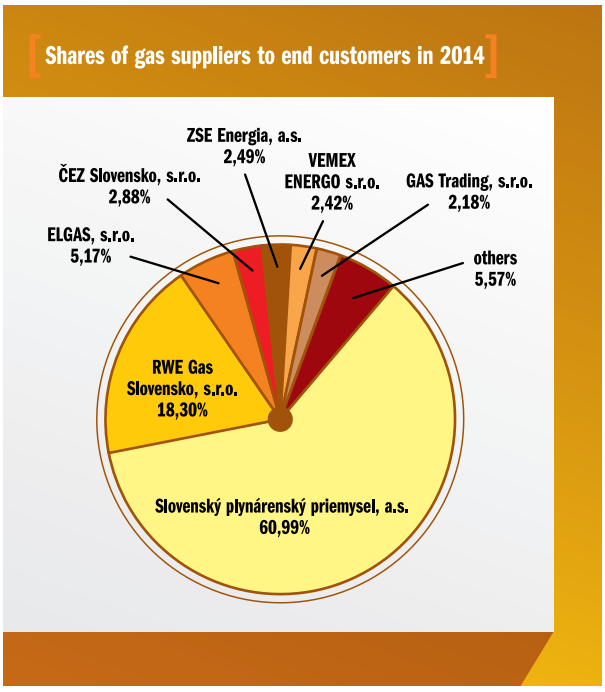
Despite a slight y-o-y increase in a number of gas customers by 3,362, the decrease in natural gas consumption was caused by the gas saving schemes implemented with the gas customers (transition to alternative fuels, support of renewable energy sources – state financial support to the installation of solar collectors or biomass boilers, support to decrease in energy intensity of industrial production, thermal insulation, public education of gas customers on energy efficiency), but also the growing annual average air temperature in the Slovak Republic. In 2014, the average annual air temperature was 10 degrees Centigrade. The figure was recorded for the first time ever in the history of meteorological measurements marking the year of 2014 an extremely warm year.

Gas market stakeholders

In 2014, the gas market stakeholders were:

a) transport network operator (eustream, a.s.),
b) distribution network operator in the particular part of the territory of the Slovak Republic (SPP-distribúcia, a.s.),
c) local distribution network operators,
d) gas container operators (POZAGAS a.s., NAFTA a.s.),
e) 25 gas suppliers,
f) gas customers.

The shares of the key gas suppliers to all end customers in 2014 follow:



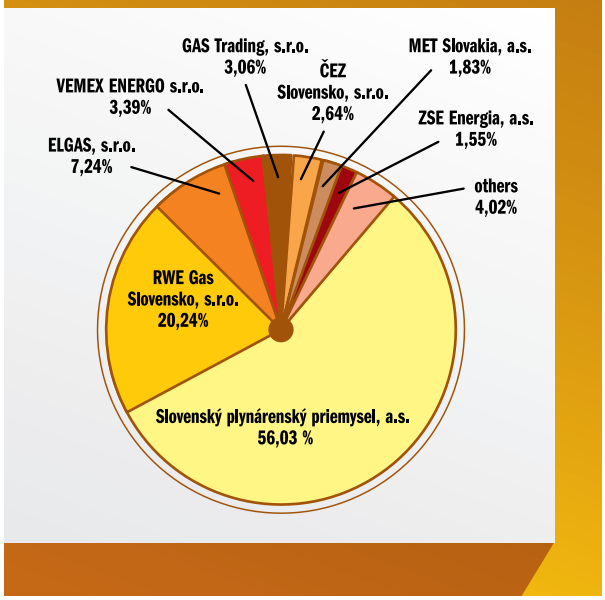
98 % of gas consumption in the Slovak Republic is covered by the imports of the commodity, namely:

- from Gazprom Export under the long-term contract,
- by natural gas purchased at a power exchange,
- by natural gas purchased from foreign gas suppliers (from parent companies of the gas suppliers active in Slovakia).

The Office issued gas supply licenses to 166 holders for 2014, which is 19 more than for 2013. 25 license holders supplied gas to end customers and operated throughout the whole Slovakia. In addition, 38 operators of local distribution networks operate either in their own or rented local distribution network. 36 of them supply gas to offtake points connected to their local distribution network. 2 entities authorized to distribute gas did not supply any gas.

The following diagram represents the key gas suppliers to industrial customers in 2014.

Shares of gas suppliers to industrial customers excl. small businesses in 2014



Network regulation

In 2014, pursuant to the Decree No. 193/2013 Coll. laying down the price regulation in gas industry as amended by the Decree No. 187/2014 Coll. ("Decree No. 193/2013 Coll."), the Office performed the price regulation governing:

- access to the transport network and gas transport,
- access to the distribution network and gas distribution,
- connection to transport and distribution networks,
- provision of auxiliary services in gas industry,
- re-purchasing of gas industry equipment.

Unbundling

2014 was the first year in which, following the decision of the Ministry of Economy of the Slovak Republic dated 22 November 2013 on fulfilment of the terms and conditions required for unbundling of eustream, a.s., the operator of transport network, the Office issued decisions pursuant to the Act on Regulation on approving business and financial contracts of eustream, a.s., an independent operator of transport network, concluded with other business entity that is a part of a vertically integrated business, and also issued a prior consent to the terms and conditions of provision of services of the operator of transport network to another person that is a part of the same vertically integrated business as the operator of the transport network or which directly or indirectly controls the entity that is a part of the same vertically integrated gas industry entity as an operator of transport network.

In 2014, the Office issued 8 decisions on approval of business and financial contracts and 4 decisions on a prior consent to the terms and conditions of provision of services by eustream, a.s. as an independent transport network operator. When reviewing the provision of the services, the Office examined the operation of eustream, a.s. pursuant to the Article 55, Section 5 of the Act on Power Industry, namely whether the company's operation does not lead to discrimination of other users of transport network, whether the services are available to all network users under the same terms and conditions, whether the provision of services does not disrupt or restrict the economic competition in the gas market or whether such provision of services does not prevent such competition.

The Office also reviewed the compliance with development of the internal gas market and whether the entities forming a part of the vertically integrated business were given preferential treatment.

Pursuant to the Act on Regulation, the Office issued decisions on service level agreements or their amendments concluded by the regulated entities performing regulated activities in gas industry in 2014.

The Office issued 6 decisions on approval of the service level agreements. When reviewing the agreements, the Office examined whether they meet the terms and conditions regularly applied in standard business conduct.

Distribution network operator that is a part of a vertically integrated business must, in terms of legal subjectivity, organization and decision-making, be independent from other activities unrelated to gas distribution. The Office was thoroughly monitoring performance of the obligations of SPP - distribúcia, a.s., the distribution network operator, with respect to unbundling of the activities of the distribution network operator active within a vertically integrated business and also the obligation related to the contractual obligations of such regulated entity, namely the obligation to submit to the Office each contract concluded between the operator and other party that forms a part of the same vertically integrated business within 30 days after the conclusion of such contract.

Technical functionality of the system

Transport network

Both the domestic and international gas transport is performed by high-pressure transport network operated by eustream, a.s. as the exclusive transport network operator. The transport network and domestic networks connected and gas containers are interconnected via a system of domestic overflow stations that serve as a physical entry and exit point from/to the transport network.

The total length of the transport network is 2,332 km. The network consists of a system of four to five parallel tubes with a calibre of 1,200/1,400 mm and maximum operating pressure of 7,35 MPa. Uninterrupted and reliable gas flow in the transport network is ensured by four compressor stations with performance of nearly 600 MW. The most important compressor station is one situated on the Slovak-Ukrainian border in Veľké Kapušany. The technical capacity at the entry point to the transport network in the particular part of the Slovak Republic's territory in Veľké Kapušany is 2.288 mil. MWh a day.

The overview of technical, contractual, but also free (available) capacities at all entry and exit border points of the transport network follows:

The overview of the capacities at all entry and exit border points

Border point	Capacity [GWh/d]		
	technical	contractual	free
ENTRY Veľké Kapušany	2 288	2 104	184
EXIT Budince	328	328	0
ENTRY Baumgarten	248	67	181
EXIT Baumgarten	1 612	1 473	139
ENTRY Lanžhot	696	696	0
EXIT Lanžhot	530	521	10

The Office is responsible for monitoring and reviewing the performance of the ten-year plan of development of the network. Pursuant to the Act on Power Industry, eustream, a.s. produced and submitted to the Office a ten-year plan of development of the transport network including the development of interconnections meeting the needs of the national and the European gas market. The objective of the plan is to introduce the planned investments to enable the increase of the transport network capacities to the gas market stakeholders and to review the ability to align the transport network with the requirements of the gas market. Apart from the assessment of development of the transport network in 2013 and other technical data, the plan also contains description of the projects aimed at increasing the capacity of the border points, namely:

- the Polish-Slovak interconnection that is an important part of the North-South gas industry corridor, this is a connection of two neighbouring countries whith one of the largest gas mains passes through,
- the project aimed at increasing fixed transport capacity at the entry point of Lanžhot in the direction towards the exit points of Baumgarten, Budince and Veľké Zlievce by installing a new technology,
- the project aimed at increasing the capacity of the domestic point and into the gas containers of SPP - distribúcia, a.s. and increasing the capacity at the Ardovo physical point of connection.

The ten-year plan of eustream, a.s. was published on the official website of the company. After published, eustream, a.s. did not receive any comments either from the transport network users or from other stakeholders active in the gas market. Pursuant to the Act on Power Industry, the Office addressed a letter

of invitation to the current and potential users of the transport network and requested them to raise their comments on the ten-year plan of development of the transport network. The results of the consultations as well as the Report on Performance of the Ten-year Plan of Development of the Transport Network in the Period 2014–2023 were published on the website of the company.

The distribution network

SPP - distribúcia, a.s. is the most important player in the gas distribution market and also the largest operator of distribution network of high-pressure, medium-pressure and low-pressure gas mains covering the whole territory of the Slovak Republic.

SPP - distribúcia, a.s. ensures distribution of 98% of all gas in Slovakia. Gas pipes were installed in 2,234 municipalities in Slovakia at the end of 2014.

The structure of the distribution network of SPP - distribúcia, a.s. as of 31 December 2014:
- total length of the distribution network was 3,257 km,
- length of the high-pressure gas mains was 6,291 km,
- length of the medium-pressure and low-pressure gas mains was 26,966 km, which is a y-o-y increase of 65 km.

The development in the number of offtake points and the volume of the gas distributed via the distribution network of SPP - distribúcia, a.s. in 2012–2014 was as follows:

The developement in the number of off-take points and the amount of gas distributed through the SPP-distribúcia gas distribution system

	2012	2013	2014
No. of the off-take points	1 508 309	1 502 898	1 506 260
Volume of gas distributed (m^3)	5 025 579 749	5 026 557 010	4 240 396 669

The development of the investments made to renewal and reconstruction of the distribution network of SPP - distribúcia in 2012–2014 was as follows:

The developement of investments made to renewal and reconstruction of the SPP-distribúcia distribution system

Investments (in milion €)	2012	2013	2014
	42	31	17,3

Some parts of the territory of the Slovak Republic are covered by operators of local distribution networks interconnected with the distribution network of SPP - distribúcia, a.s. The local operators distribute gas to customers located in large corporate premises and industrial parks.

In 2014, gas totalling 800 mil. m^3 was distributed by 38 local distribution network operators. Compared to 2013, the number of the local distribution network operators decreased by one and the volume of the gas distributed declined by 151 mil. m^3.

Network balancing

Balancing the distribution network in the territory of the Slovak Republic is delivered by SPP - distribúcia, a.s. acting also as the national gas industry central controller. Its goal is to ensure the stability and balance of the distribution network in the particular parts of the Slovak Republic. In 2014, SPP - distribúcia, a.s. performed physical and also business balancing of the distribution network. For the purpose of physical balancing of the distribution network, SPP - distribúcia, a.s. used a gas container placed at Dolné Bojanovice in the territory of the Czech Republic, which is interconnected to the Slovak gas industry network. No issues with the distribution network of SPP - distribúcia, a.s. due to a failure in balancing the distribution network were reported in 2014. SPP - distribúcia, a.s. carried out daily business balancing of the distribution network users by daily calculation of accumulated deviations occurring between the volumes of the gas entering the distribution network and the ones of gas leaving the distribution network, maintaining the balance account and settling of the deviations.

Underground gas containers

Underground gas containers in the territory of the Slovak Republic are operated by two companies, namely NAFTA a.s. ("NAFTA"), which runs a complex of underground gas containers Láb 1.-3. and Gajary-Báden,

and POZAGAS a.s. ("POZAGAS"), which runs an underground container of natural gas Láb 4. – the real estate located near Malacky.

Network tariffs and tariffs for connection and access to LNG

Methods of gas network price regulation are as follows:

- access to the transport network and gas transport – direct determination of a comparable price by comparing prices for gas transport in the Slovak Republic with those for gas transport in other member countries of the European Union bordering the Slovak Republic. Comparable prices for access to the transport network and gas transport are set in the form of tariffs that are proposed as entry-exit tariff system,
- access to the distribution network and gas distribution for a regulated entity with the distribution network of more than 100,000 offtake points connected to i.e. SPP - distribúcia, a.s. by determination of the calculation method of the maximum price for access to the distribution network and gas distribution with the price cap method applied,
- access to the distribution network and gas distribution for regulated entities – operators of the local distribution networks, i.e. the networks with no more than 100,000 offtake points connected. Cost regulation method is applied with the resulting maximum price including the eligible costs as necessary to operate the network per unit of volume of gas in year t, fair profit as limited by the Office and a corrective factor reflecting the actual volume of the gas distributed and actual economically eligible costs in year t-2,
- maximum price for connection to the transport network is based on the actually incurred economically eligible costs required for documentation, technical and implementation stage of connection,
- maximum price for connection to the distribution network is set on the basis of the estimated economically eligible costs related to determination of the terms and conditions of connection, review of an application for implementation of connection to the distribution network and installation of a measure including the review of a report on expert inspection and on the test of the gas offtake equipment. The prices are set separately for household gas customers and non-household gas customers.

No LNG facility was operated in the territory of the Slovak Republic in 2014.

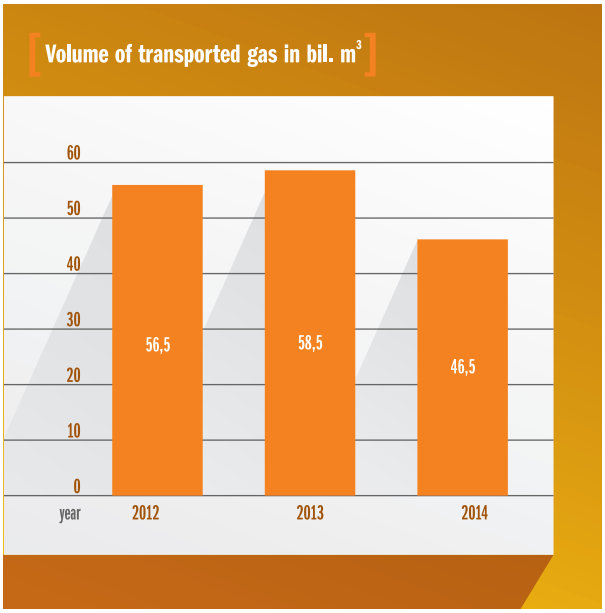
In relation to the established term "network fees" applied in the European Union, it is necessary to distinguish the fees that are directly connected to the exploitation of the network for gas transport to an offtake point of the gas customer in the Slovak market. The network fees include the tariffs for access to the transport network and gas transport and the tariffs for access to the distribution network and gas distribution. The other items that form the final price for gas supply such as costs of gas storage, costs of the gas supplier, fair profit and costs of gas (price of the commodity) are not included in the network fees and are not subject to any price regulation except for gas supplies for vulnerable customers.

Transport network operator

The transport network of eustream, a.s. forms a reliable part of an international transport network transporting natural gas to the European gas market.

In 2014, the transport network transported 46.5 bil. m^3 of natural gas. The largest user of the transport network in terms of the volume of the gas transported is Gazprom Export.

The following chart shows the development of the volume of the gas transported in 2012–2014 by the transport network of eustream, a.s.



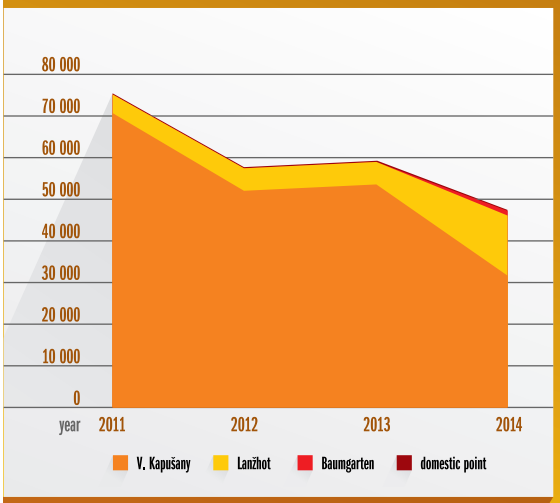
The Office approved tariffs for access to the transport network and gas transport for eustream, a.s. for 2014 by its decision dated 2 September 2013. The tariffs are set for individual entry and exit points of the transport network (the entry-exit system) and are valid for both Slovak and foreign users of the transport network. They are proposed depending on the contractually agreed daily maximum capacity of gas transport. Starting rates of the tariffs were raised by 1,30% on the average for 2014 to match the inflation rate in the countries of the European Union in 2013 as published by Eurostat with only 50% of the amount being included in the escalation factor. The tariffs were set in energy units to enable comparison thereof to the tariffs of the other operators of transport networks in the neighbouring countries.

In the geopolitical situation in 2014, tense relations between Ukraine and the Russian Federation directly impacted the development in the gas transport in the Slovak Republic. The Slovak-Ukrainian gas interconnection project enabling gas supplies to Ukraine from the Western route was implemented in relation to the crisis. A new entry-exit point of the transport network was built in Budince and launched into commercial operation on 2 September 2014.

With regard to launching the new entry-exit point in Budince, which ensured physical reverse flow of natural gas in the direction towards Ukraine, into operation as early as 23 June 2014, the Office issued a decision on approval of starting rates of the tariffs for this entry-exit point.

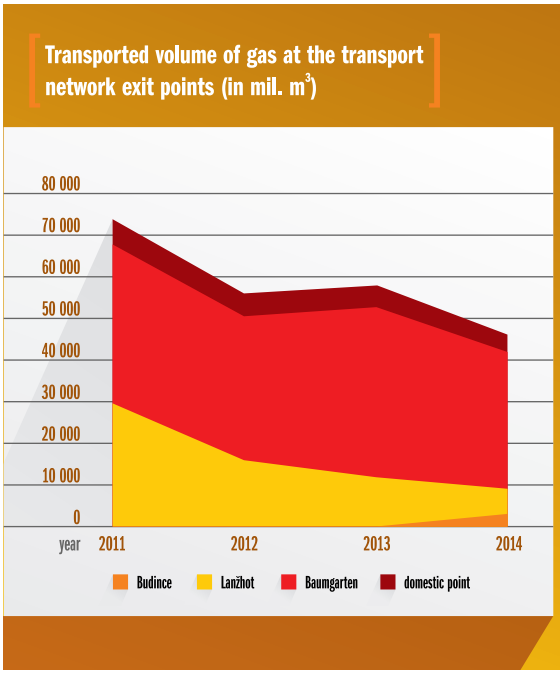
The development of the gas flow at the entry points to the transport network in 2011–2014 is documented by a decrease in gas volume from the entry point to the transport network (Veľké Kapušany). The diagram also shows an increase in the volume of gas transported from the West to the East reflecting the change on the map of the European gas industry due to the supplies of Russian gas to the member states of the European Union via the Nord Stream gas mains.

Transported volume of gas at the transport network entry points (in mil. m³)



The following diagram shows the development of the gas flow at the exit points from the transport network in 2011-2014.

Transported volume of gas at the transport network exit points (in mil. m³)



In 2014, the Office did not issue any price decision on the transport network connection.

Distribution network operator

Price regulation of access to the distribution network and gas distribution for 2014 was performed separately for:

a) SPP - distribúcia, a.s. acting as an operator of the distribution network with more than 100,000 offtake points connected and the gas industry central controller in the defined part of the Slovak Republic,

b) operators of the so-called local distribution networks that perform gas distribution in a defined part of the Slovak Republic to customers located in large corporate premises and industrial parks with the distribution network of no more than 100,000 offtake points connected to.

In its price decisions, the Office set tariffs for SPP - distribúcia, a.s. for access to the distribution network, gas distribution and provision of auxiliary services in the gas industry not provided within the framework of the tariffs for access to the distribution network and gas distribution for 2014 and also valid for 2015 and 2016. The tariffs also cover payments for exceeding the contractually agreed daily distribution capacity set separately for October, November, December, January, February and March and separately for April, May, June, July, August and September.

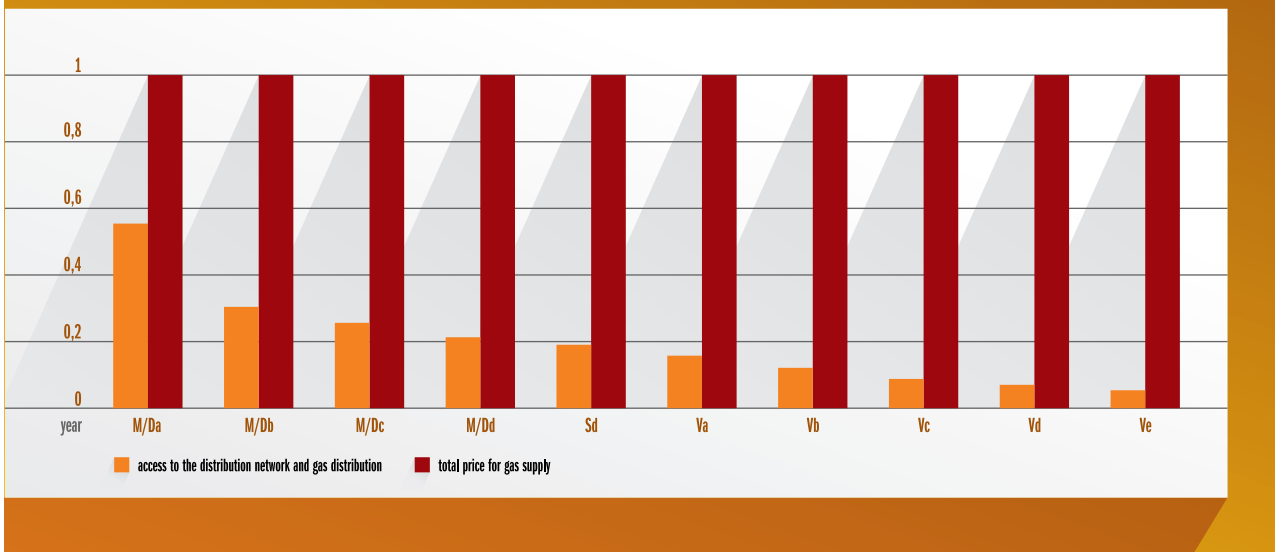
The tariffs for gas distribution are made up of several components and do not contain any cross subsidies between the individual groups of gas customers. They cover all costs and fair profit. Tariffs for gas distribution are set on the principle of a so-called post stamp, i.e. based on annual volume of gas distributed regardless of the distance of an offtake point from a gas source.

The Office issued 42 price decisions for gas distribution within the local distribution networks for 2014. 3 price decisions for operators of local distribution networks and 1 price decision on connecting to the local distribution network.

The Office also approved prices for connection to the distribution network for SPP - distribúcia, a.s. The prices were approved separately for household gas customers and non-household gas ones.

The following chart presents the share of the average price for access to distribution network and gas distribution in the total price for gas supply based on the structure of the distribution tariffs.

The share of gas distribution price for gas supply under tariffs for gas distribution



The tariffs for gas distribution of SPP – distribúcia, a.s.

Groups of customers	tariffs	annual volume of gas distribution in m^3
small customers and householders	M/Da	<200
	M/Db	[200–1 700]
	M/Dc	[1 700–6 500]
	M/Dd	[6 500–60 000]
large customers	S	[60 000–400 000]
	Va	[400 000–2 000 000]
	Vb	[2 000 000–15 000 000]
	Vc	[15 000 000–25 000 000]
	Vd	[25 000 000–300 000 000]
	Ve	[301 000 000–500 000 000]

Underground gas container operators

A price for access to a container and gas storage is not subject to price regulation.

The y-o-y increase in storage capacity of the operators of the underground gas containers reached 136 mil. m^3 a year and is reflected in the following table.

The storage capacity of underground storage container operators as of December 31, 2014

Underground container operator	technical working volume (in mil.m^3/year)	technical injected capacity (in mil.m^3/day)	technical production capacity (in mil.m^3/day)
NAFTA a.s.	2 501	31,92	38,26
POZAGAS a.s.	655	6,85	6,85
total:	3 156	38,77	45,11

Utilization of gas containers capacity of NAFTA, a.s. in 2014

Gas container user	share
Slovenský plynárenský priemysel, a.s.	60,08%
RWE Supply & Trading CZ, a.s.	19,17%
RWE Supply & Trading, GmbH	5,26%
Axpo Trading AG	3,29%
Statoil ASA	2,22%
GDF SUEZ S.A.	2,08%
Gazprom Marketing & Trading Limited	1,25%
ČEZ, a.s.	1,18%
Koch Supply & Trading Sarl	1,15%
Mercuria Energy Trading SA	1,05%
Vattenfall Energy Trading, GmbH	1,04%
SHELL Slovakia, s.r.o.	0,77%
VNG -Verbundnetz Gas Aktiengesellschaft	0,70%
VNG Slovakia, spol. s r.o.	0,44%
ZSE Energia, a.s.	0,20%
Danske Commodities A/S	0,09%
ELGAS, s.r.o.	0,03%
total	100,00%

Utilization of gas containers capacity of POZAGAS, a.s. in 2014

Gas container user	share
GDF SUEZ	48,90%
Vattenfall Energy Trading GmbH	12,70%
AXPO TRADING AG	10,35%
NAFTA, a.s.	6,79%
Vitol SA	5,76%
Gunvor International B.V.	3,37%
ČEZ ČR	3,65%
ZSE Energia	2,39%
MET INTERNATIONAL AG	2,62%
Koch Supply & Trading Sarl	2,30%
MERCURIA ENERGY TRADING SA	0,38%
Slovakia Energy, s.r.o.	0,34%
NITROFER SARL	0,24%
MET Slovakia, a.s.	0,12%
Danske Commodities	0,09%
total	100,00%

Natural gas extraction

In 2014, 86,653 mil. m³ of gas was extracted from the reservoirs of NAFTA, a.s.

Cross-border issues

Changes that occurred in the Russian-Ukrainian relations in 2014 resulted in eustream, a.s. signing a Joint Memorandum with the Ukrainian operator of gas mains network Ukrtransgaz and launching a project of gas reverse flow supplies to Ukraine. The project included construction of a tube interconnection and a gas measurement station within the building of compressor station in Veľké Kapušany to the existing gas mains DN 700 Vojany (entry-exit point of transport network of Budince) placed nearby the compressor station and continuing to the territory of Ukraine. It ensures physical reverse flow of natural gas of up to 10 bil. m³ a year in the direction towards Ukraine. At the same time, it contributes to strengthening energy security of Ukraine as well as to diversification of the nation's natural gas sources. From the point of view of Ukraine's total consumption, the project significantly increased its reverse capacity as only reverse flows from Hungary and Poland had been possible before it. It opens new possibilities in the natural gas and storage capacity trading for Ukraine.

Implementation of the Slovak-Hungarian interconnection project resulted in the construction of interconnecting gas mains as a new interconnection between the Slovak and Hungarian transit networks. The interconnections will, as a part of the North-South corridor, connect the gas industry networks across Central and Eastern Europe and contribute to considerable diversification of sources and transport routes of natural gas. The gas mains pipeline is 111 km long and connects the Slovak compressor station of Veľké Zlievce with the Hungarian transport network near Vecsés municipality. The gas mains, which are to be launched into commercial operation in February 2015, are 92 km long in Hungary.

A planned Polish-Slovak interconnection is yet another part of the North-South corridor in the gas industry. If gas supplies are interrupted, the interconnection may significantly eliminate the negative impact of a possible crisis situation and also offer interconnection and access to other nations. Poland will also be able to export gas imported to Europe via the Świnoujście LNG terminal. The planned gas mains interconnection will considerably contribute to the diversification and stability of gas supplies throughout the region. The project was included in the list of the PCI projects pursuant to the Regulation No. 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure ("Regulation No. 347/2013").

The length of the planned gas mains is approximately 164 km. The interconnection will be located near the gas industry node of Strachocina situated close to the Polish underground gas containers and the compressor station of Veľké Kapušany. The Slovak part will be 106 km long, while the Polish one will cover 58 km.

The Office and the Polish Office for Regulation agreed upon cross-border allocation of the project costs. The commercial operation will be launched in 2019–2020. Memorandum of Understanding on division of the project investment costs was signed between the Office and the Polish Office for Regulation pursuant to the Regulation No. 347/2013. In November 2014, the national regulation authorities confirmed their intention to issue coordinated decisions on the project. On 28 November 2014, they issued decisions on division of the cross-border costs for implementation of the gas interconnection incurred by the Polish operator of transport network GAZ-SYSTEM S.A. and the Slovak operator of transport network eustream, a.s. between the Republic of Poland and the Slovak Republic. The decisions were subsequently sent to the Agency for the Cooperation of Energy Regulators (ACER).

Transport capacity

Annual capacity of the transport network is as much as 90 bil. m³ of natural gas, which exceeds the domestic gas consumption of the Slovak Republic 15 times. The international transport of natural gas represents more than 71% of the total transport of natural gas. The current aggregate daily entry capacity of all entry-exit points of the transport network is 327 mil. m³ of natural gas. Access to the capacities of the transport system of eustream, a.s. is based on the "Entry-Exit" tariff system. Development of the market of transport capacities from 2012 to 2014 is as follows:

Development of the market of transport capacities from 2012 through 2014

Indicator/year	2012	2013	2014
no. of applications for access to the transport network	154	537	552
no. of applications for connection to the transport network	0	0	1
no. of signed contracts on connection to the trans. network	0	0	0
no. of signed contracts on transport of natural gas with the fixed transport capacity	154	485	486
of wich: long-term	1	4	2
annual	49	22	42
short-term	104	459	442
no. of signed contracts on transport of natural gas with the uninterruptible transport capacity	1	52	101
of wich: long-term	0	0	2
annual	0	0	5
short-term	1	52	94
no. of users of the transmission system	36	21	28

In 2014, 6 of all applications for access to the transport network were dismissed due to the zero free transport capacity at the Budince exit point from the transport network.

In 2014, the transport network was utilized by Slovak and foreign companies namely from Russia, Ukraine, the Czech Republic, Germany, Switzerland, Great Britain, Denmark and Austria.

The following table shows shares of the domestic and foreign users of the transport network in the total volume of the gas transported. The total volume of gas transported in 2014 reached 46.5 bil. m³.

Overview of the development of the users of the transport network according to the volume of the gas transported is reflected in the following table:

Overview of the development of the users of the transport network

Users of the trans. system in the local market (transport to the local point)	2012 (%)	2013 (%)	2014 (%)
Slovakia	7,11	9,52	9,10
Czech republic	2,24	0,00	0,00
others	0,39	0,00	0,00
transit users of the transport system			
Russia	63,17	66,55	69,78
Germany	9,49	9,11	10,60
Czech republic	12,89	14,14	3,63
Italy	0,22	0,02	0,00
Switzerland	0,19	0,07	0,12
UK	0,04	0,53	0,33
Austria	0,11	0,03	0,10
Denmark	0,00	0,03	0,00
Slovakia	1,79	0,00	0,00
France	0,01	0,00	0,59
Slovenia	0,86	0,00	0,00
Netherlands	1,49	0,00	0,00
Luxemburg	0,00	0,00	0,01
Ukraine	0,00	0,00	5,74
total	100,00	100,00	100,00

Competition promotion

Wholesale market

Monitoring of pricing and transparency including compliance with the related obligations and efficiency of the open market and competition in the wholesale market

The Office was monitoring the developments in the wholesale gas market with more emphasis put on gas wholesale prices due to their relative fluctuation in 2014. In the first half of 2014, a significant decrease in prices in the energy exchanges occurred, namely due to warm winter and a gas market surplus. A tension between Russia and Ukraine stopped the decline as Ukraine was not able to pay for the gas supplied. At the end of 2014, yet another drop in the wholesale prices of natural gas reoccurred. In addition, a substantial decrease in a price of crude oil impacted the falling prices. The price of crude oil dropped due to large reserves of gas and also growing gas and crude oil extraction from

shelves in the USA up to 30%. The gas wholesale prices are also derived from the long-term gas purchase contracts. The gas prices under those contracts were especially derived from the development of competitive fuels, mainly the crude oil and heating oils. Currently, when a major part of gas required to cover gas supplies is purchased at energy exchanges, the price of gas is not contractually indexed at the long term development averages of crude oil and petroleum derivates, but responds to the situation in the gas market and allows for price fluctuation of gas at energy exchanges. Natural gas is also purchased at so-called spot energy markets of energy exchanges for the current or the following day. Gas purchase via so-called futures is also performed – gas supply is offered as agreed volume for a period agreed in advance. Apart from monitoring prices in the gas wholesale market, the Office also carefully observed the development in diversification of gas routes to identify new potential gas sources in Europe and in the world.

Development of natural gas prices in the wholesale market in 2014 at the European energy exchanges was shown at the bottom diagram.

In 2014, the Office prepared for practical application of Regulation (EU) No. 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency (REMIT). The regulation sets rules for stakeholders active in the wholesale markets.

The wholesale energy markets include commodity markets and derivate markets. The wholesale energy markets inter alia include regulated markets, multilateral trading systems, extra-exchange (over-the-counter) transactions and bilateral contracts, either direct or brokered.

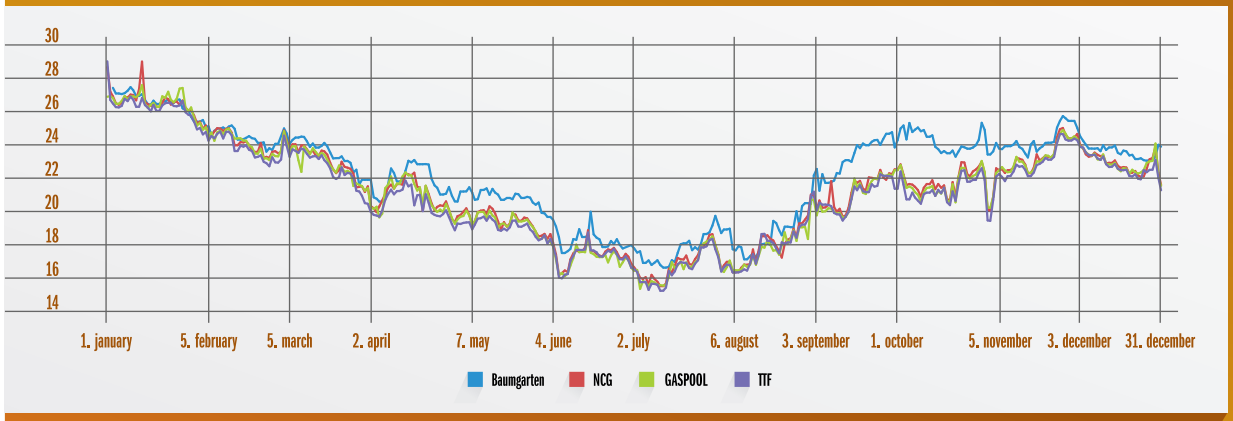
The Office published all relevant requirements on its official website. An important assignment of the Office arising out of the Regulation is to begin to register market stakeholders within 3 months from adoption of an implementing regulation by the European Commission (i.e. no later than 17 March 2015). The stakeholders active in the market will be registered via registration form in the national register of stakeholders present in the market. Information in the national register will be subsequently handed over to ACER to establish a European register of stakeholders active in the market.

Retail market

Pursuant to the Act on Regulation and the Regulation Policy for Regulation Period 2012–2016, the Office performed price regulation of gas supplies to vulnerable gas customers – household gas customers and small businesses.

In addition, it carried out the price regulation for gas supplied within the last resort supplier regime in 2014.

Gas spot price in 2014



The maximum prices for gas supplied to vulnerable gas customers were set by the Office's price decision for 2014. The prices set are also valid for 2015 and 2016, i.e. until the end of the current regulation period. The maximum prices enable gas suppliers to compete in the liberalized gas market while protecting the vulnerable customers by establishing the price ceiling for customers who, with respect to the character of the gas consumption and volume of gas consumed, do not enjoy a strong position in the gas market.

In 2014, the Office approved business terms and conditions of gas suppliers that provide universal service prepared by the gas suppliers on the basis of model business terms and conditions produced and published by the Office on its official website in 2013. The business terms and conditions form a regular part of a contract on gas supply and govern the rights and obligations of a gas supplier in detail.

The Office also publishes a list of gas suppliers providing universal service on its official website serving to assist a household gas customer in selecting a gas supplier. A useful tool for the gas customers considering switching of their gas supplier is also a price calculator comparing prices of gas supply charged by individual gas suppliers.

Gas supply to households

A method of calculation of the maximum prices for gas supplies to households for the 2012–2016 regulation period is set by "the price cap", i.e. by determination of the price ceiling. The maximum price for gas supply to households in 2014 was based on the maximum starting price for gas supply to households from the first regulation period in 2012.

The maximum prices for gas supply to households that the Office set for SPP, a.s. for 2014, which will remain valid also for 2015 and 2016, were also applicable to all other gas suppliers active in the gas market in the Slovak Republic that chose this option. The process is in compliance with the Decree of the Office No. 193/2013 Coll. The maximum prices for gas supply to households consist of the maximum amount of a fixed monthly rate and the maximum amount of a rate for the gas consumed. The structure of the tariffs is based on 3 tariff groups D1 to D3 on the basis of the volume of the annual gas consumption. In October 2014, the Office initiated a modification to its decision on setting the maximum prices for gas supply to vulnerable customers that consume gas in households. The terms and conditions of the application of the prices valid for 2014, 2015 and 2016 for SPP, a.s. were also set. The reason for the update was a change in the purchase price for SPP, a.s. following from the conclusion of an amendment to the contract on gas supply with Gazprom export LLC as well as changes of the average amount of daily prices published by the EEX (European Energy Exchange) of the product NCG Natural Gas Year Futures that impact the purchase price of gas for SPP, a.s. by 30%.The average maximum price for gas supply set for SPP, a.s. will decrease by 1.14% for 2015 and 2016 from 2014.

In 2014, the gas suppliers were expected to offer prices for gas supply to new customers that are lower than the maximum ones approved by the Office.

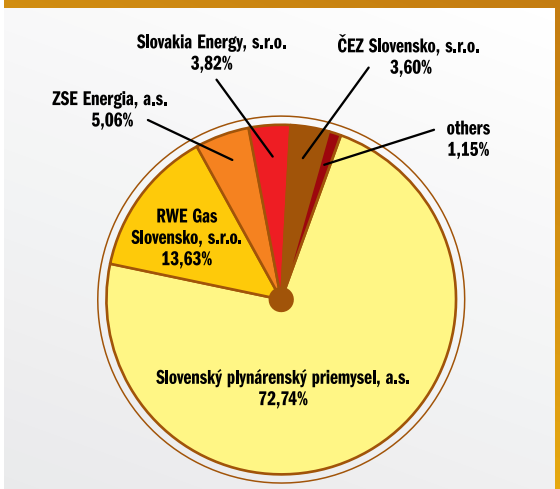
15 suppliers were supplying gas to household customers in 2014. The list of the gas suppliers follows:

Gas suppliers to households in 2014

Supplier	share
Slovenský plynárenský priemysel, a.s.	72,74%
RWE Gas Slovensko, s.r.o.	13,63%
ZSE Energia, a.s.	5,06%
Slovakia Energy, s.r.o.	3,82%
ČEZ Slovensko, s.r.o.	3,60%
Energie2, a.s.	0,75%
Stredoslovenská energetika, a.s.	0,25%
UTYLIS s.r.o.	0,11%
MAGNA ENERGIA a.s.	0,035%
RIGHT POWER ENERGY, s.r.o.	0,003%
VEMEX ENERGO s.r.o.	0,0014%
Europe Easy Energy Slovensko a.s.	0,0004%
ELGAS, s.r.o.	0,0004%
A.EN. GAS a.s.	0,0002%
LAMA energy a.s.	0,0001%
total	100,00%

The following diagram shows the shares of the major gas suppliers to household customers in 2014.

Shares of gas suppliers to households in 2014



The maximum prices for gas supplied to households in 2012–2014 excl. VAT:

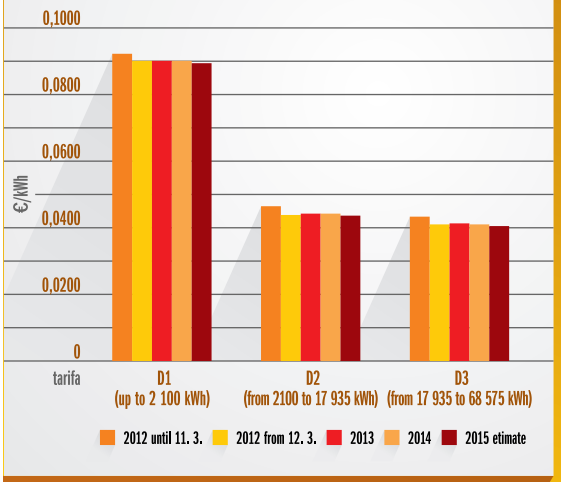
The maximum prices for gas supply to households in the period from 2012 to 2014 (excl. VAT)

Tariff	fixed monthly rate (€/month)			
	2012 till 11. 3.	2012 from 12. 3.	2013	2014
D1	1,76	1,76	1,76	1,76
D2	4,15	4,15	4,15	4,15
D3	6,46	6,46	6,46	6,46
	rate for extracted gas (€/kWh)			
D1	0,0561	0,0537	0,0539	0,0538
D2	0,0402	0,0400	0,0402	0,0401
D3	0,0408	0,0384	0,0386	0,0385

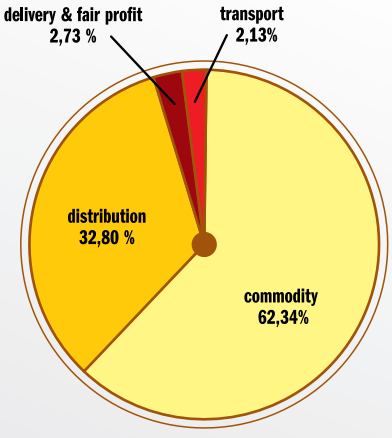
Development of the average final prices of gas supply to households in 2012–2014 and the expected development for 2015 excl. VAT:

Develop. of the average final prices of gas supply to households in 2012–2014 and the expected develop. for 2015 (excl. VAT)

Tariff (based on annual volume of gas supplied)	2012 till 11. 3.	2012 from 12. 3.	2013	2014	2015 estimate
D1 (up to 2 100 kWh)	0,0923	0,0899	0,0901	0,0900	0,0895
D2 (from 2100 to 17 935 kWh)	0,0465	0,0441	0,0443	0,0442	0,0437
D3 (from 17 935 to 68 575 kWh)	0,0436	0,0412	0,0414	0,0413	0,0408



The structure of average price for household gas supply in 2014 (excl. VAT)

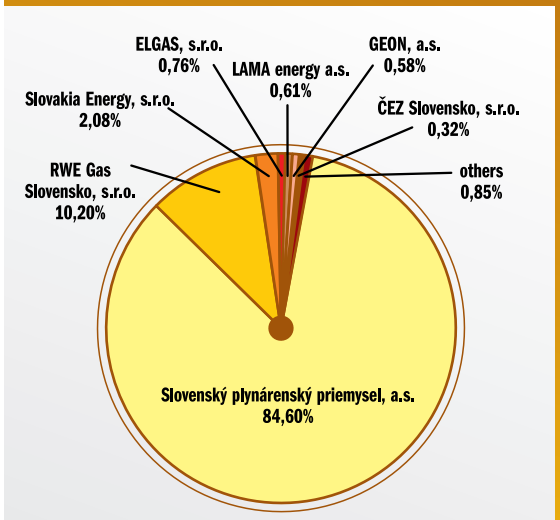


Gas supply to small businesses

For the purpose of the price regulation, a small business is defined as an end customer of natural gas who consumes up to 100,000 kWh of natural gas in all its offtake points in the year preceding submission of the proposed price.

The cost method was applied to calculation of the maximum prices for gas supply to a small business. The price also includes all eligible costs as well a fair profit as set by the Office. The price is composed of the maximum amount of the fixed monthly rate and the maximum amount of the rate for the gas consumed. The tariffs are divided into four tariff groups M1–M4 based on the annual volume of the natural gas consumption.

Shares of gas suppliers to small businesses in 2014



Gas supply by the last resort supplier

The price regulation of gas supply under the last resort supplier regime is performed by determination of the method of calculation of the maximum price for gas supply by a respective last resort supplier.

SPP, a.s. acts as the last resort supplier under the decision of the Office. The Office issued aprice decision on the maximum prices for the last resort gas supplier for 2014. The decision is also applicable to all gas suppliers in general.

The last resort supplier notified the Office of 40 cases of last resort supplies in 2014. The last resort supply occurred in cases of elapsed time for submission of an application for gas supplier switching, whereas no alternative gas supplier was available to a gas customer.

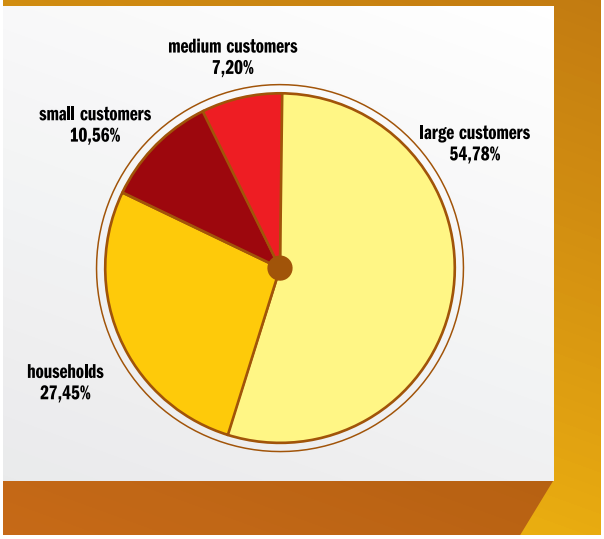
Gas supply to other gas customers

Apart from the last resort gas supplies, the Office also cooperates with the Ministry of Economy of the Slovak Republic in making decisions on the method of providing standard security of gas supplies pursuant to the Act on Power Industry. The standard security of gas supplies means the provision of gas supplies to protected gas customers from 1 November to 31 March within the scope defined in the Regulation of the European Parliament and the Council No.994/2010.

End gas customers are categorized in customer groups depending on the use of natural gas and their annual consumption. The groups are as follows:
- households;
- small customers;
- medium customers,
- large customers.

Shares of consumption by individual end customers according to the groups in the total gas consumption in 2014 are as follows:

Gas consumption in 2014



Monitoring of pricing and transparency including compliance with the related obligations and efficiency of the open market and competition in the wholesale market

The level of liberalization of the gas market in the European Union is measured by a switching coefficient that is the ratio offtake points that changed a gas supplier in a given year and a total number of all offtake points.

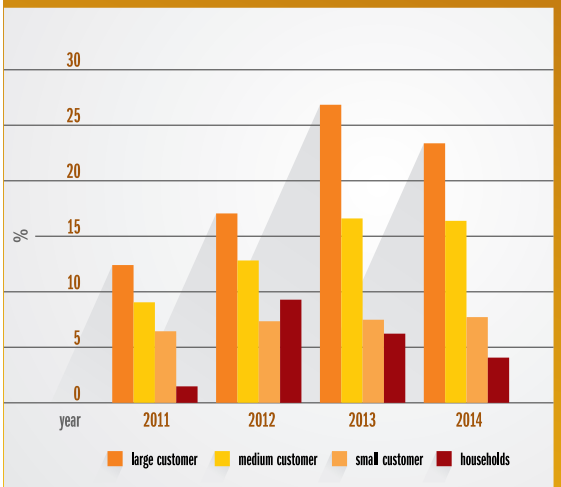
The following table shows switching of gas suppliers at the individual offtake points of gas suppliers in 2011–2014. The data in the table does not allow a change of a gas supplier at offtake points within the local distribution networks.

Switching of gas suppliers at the individual offtake points of gas suppliers in 2011–2014

Categories of offtake points	No. of offtake points that switched a gas supplier			
	2011	2012	2013	2014
large customer	99	144	204	174
medium customer	267	383	480	480
small customer	5 270	5 415	5 676	5 877
households	21 376	131 385	88 028	58 081
total	27 012	137 327	94 388	64 612
switching (%)				
large customer	12,42	17,08	26,91	23,39
medium customer	9,04	12,81	16,61	16,44
small customer	6,44	7,37	7,48	7,72
households	1,51	9,25	6,21	4,07
total	1,8	9,17	6,31	4,29

The following table shows a total y-o-y decrease in large and household customer groups. The total decrease may be attributed to significantly saturated retail gas market, minimum price differences offered by gas suppliers as well as the fact that most contracts for gas supply are concluded for a definite period of time including longer time commitment with the gas customers being thus limited by the contractual terms and conditions in making decisions on their gas supplier switching.

The level of switching in 2011–2014



The Department of Regulation of the Gas Industry in 2014 prepared opinions within the framework of handling motions submitted by gas market stakeholders. The motions can be divided as follows:

- explanation of gas invoicing,
- selection of a new gas supplier,
- explanation of the reasons for transition to energy units,
- explanation of gas measurement,
- explanation of the fees for building gas industry equipment and offtake gas equipment,
- payment of fee for replacement of a gas pressure regulator,
- procedure in amending decisions as issued for 2014–2016,
- explanation of time periods for filing amendments to decisions,
- explanation of the issues of connection to the distribution network,
- explanation of composition of the price for gas supply,
- explanation of validity of price decisions during the regulation period.

Decision		
I. Decisions on price regulation issued in 2014 for the remainder of the regulatory period		**19**
of which	Household gas supply	6
	Household gas supply (amended decision)	2
	Gas supply to small businesses	3
	Gas supply to small businesses (amended decision)	2
	Access to the distribution system and gas distribution	4
	Connection to the distribution system	1
	Connection to the transport system and gas transport (amended decision)	1
II. Decisions on Operational Codes		**10**
of which	TSO Operational Code eustream, a.s. (amended decision)	1
	SSO Operational Code, POZAGAS, a.s., Malacky (amended decision)	1
	DSO Operational Code SPP-distribúcia, a.s., (amended decision)	2
	Local DSO Operational Codes	3
	Local DSO Operational Codes (amended decision)	3
III. Decisions on approval of business terms and conditions		**17**
of which	Business terms and conditions of providing universal service of gas supply in category household gas customers	5
	Business terms and conditions of providing universal service of gas supply in category household gas customers (amended decision)	2
	Business terms and conditions of providing universal service of gas supply to small business customers	8
	Business terms and conditions of providing universal service of gas supply to small business customers (amended decision)	2
IV. Terminated price proceedings		**6**
V. Decisions for entities that are part of a vertically integrated business		**12**
of which	Prior consent pursuant to the Article 13 (1) (i) Section 5 of the Act No. 250/2012 Coll.	4
	Approval of commercial and financial contracts pursuant to the Art. 13 Section. 2g) of the Acto. 250/2012 Coll.	8
Decisions of the Office pursuant to the regulation of the European Parliament and of the Council (EU)		**2**
Division of costs of common interest under the Investment application for a interconnection of gas transport networks*		1
Provision of incentives for the project of gas transport network interconnection**		1
** Purs. to the Art. 12 Sect. 4 of the Regulation of the EP and of the Council (EU) No 347/2013*		
*** Purs. to the Art. 13 of the Regulation of the EP and of the Council (EU) no 347/2013*		
VII. Suspended price proceedings		**14**
of which	Price regulation	5
	Material regulation	9

3[Thermal Energy]

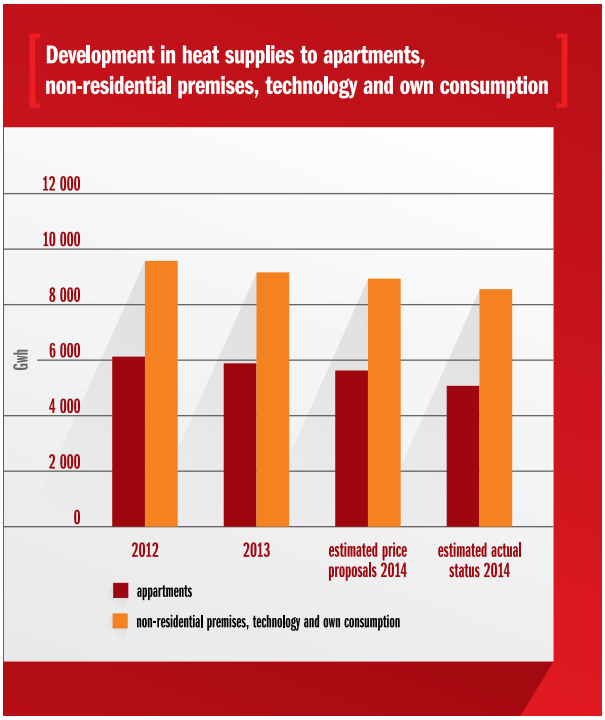
Thermal Energy Market

The Slovak Republic belongs to the countries with a high share of centralized heat supply. The majority of sources of thermal energy and heat distribution facilities were built and developed along with the development of urban agglomerations, in particular residential and municipal development as well as public facilities before 1990. Heat is supplied from central sources mainly to apartments, industries and services.

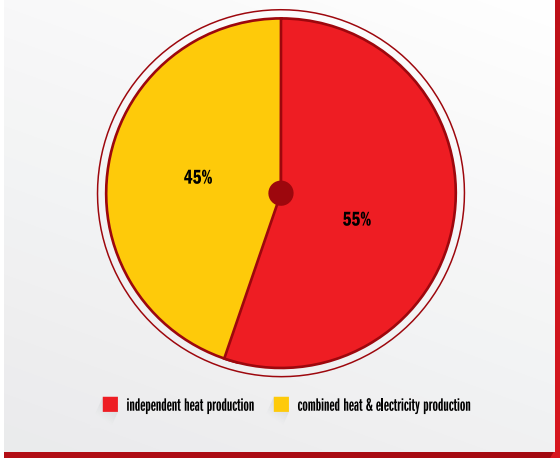
The amount of heat supplied has been declining over the recent years. This was primarily caused by lower heat consumption in residential buildings, insulation projects and adoption of rationalization measures. Given the large number of the saving-oriented projects in residential buildings already completed across Slovakia, we expect the trend to slow down in the following years. Disconnection of customers from the central sources of heat, which should not continue to such a great extent moving forward, has also had a negative impact on the size of the market. The current legislation sets strict conditions for termination of central heat supply and virtually makes it impossible to disconnect from heat sources using renewable energy sources. The law also regulates construction of new heating facilities, which, in case of a negative impact on performance and energy efficiency of the existing system, the environment or the cost of heat supplied to end customers, shall not be allowed. The objective of these measures is to stabilize the thermal energy market in future. In addition, the market is also affected by the climate. Equally important, the application of the Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency has to be taken into account as well.

The number of heat suppliers remained unchanged in 2014. Production, distribution and supply of heat to customers are carried out by app. 320 suppliers. 87% of suppliers produce and distribute heat at the same time, whereas the remaining 13% of suppliers buy and distribute heat. This ratio has been stable for several years now despite ongoing changes in the suppliers. In 2014, 16 companies stopped producing, distributing and supplying heat under a contract on termination of the supply and consumption of heat, whilst other companies merged and 23 new companies, mainly operating biogas plants, were established.

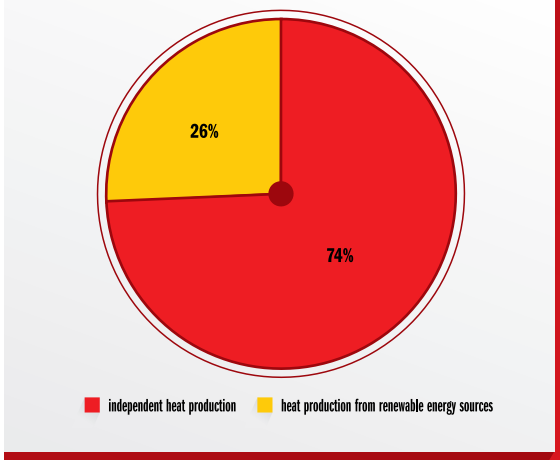
Based on price proposals submitted for 2014, heat supply, which includes delivery of heat to apartments, non-residential premises and technological processes including own consumption amounted to 14,534 GWh. Out of this amount, 5,610 GWh (39%) and 8,924 GWh (61%) was supplied to residential and non-residential premises, for technological purposes and own consumption, respectively. The heat supply declined by 3.4% y-o-y, compared to an estimated decrease of supplies to residential premises and for other purposes by 5% and 2%, respectively. Given that the year 2014 was significantly warmer than the previous years, it is expected that the overall actual y-o-y decrease of the overall heat supply may have reached up to 10% in 2014.



Combined heat and electricity heat production in 2014



Heat production from renewable energy sources in 2014



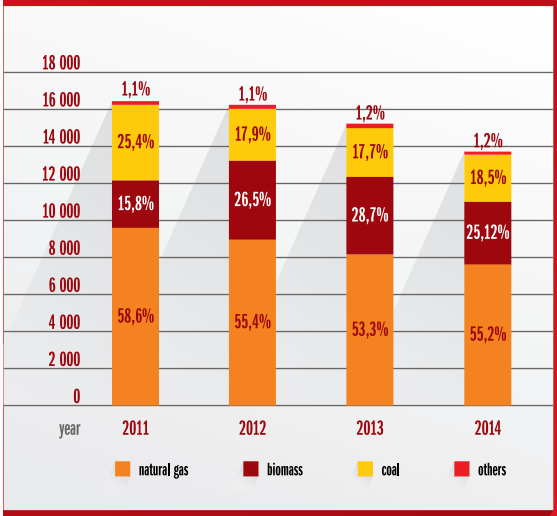
Fuel Consumption for Heat Production

In 2014, the ratio of different types of fuel used in heat production did not change compared to 2012 and 2013. The share of natural gas reached 55.4%, 53.3% and 55.2% in 2012, 2013 and 2014, respectively. This trend mostly owes to favourable prices of natural gas. 65% of suppliers use exclusively natural gas for heat production with 18% of other suppliers combining natural gas and other types of fuel, mainly biomass. Biomass was the second most frequently used fuel to produce heat (25%) by 23% of heat suppliers.

The number of heat suppliers by fuel used in heat production

Fuel used	no. of suppliers
natural gas	264
biomass	74
coal	15
biogas	14
geothermal energy	5
heat pump	3
solar energy	2

Shares of individual types of fuel in heat supplies



Consumption of individual types of fuel

Year	natural gas [GWh]	coal [thous. t]	oil [t]	biomass thous.t]	heat supply [GWh]
2011	10 597	1 064	3 848	1 028	15 400
2012	9 868	738	3 735	1 705	15 734
2013	9 045	690	5 905	2 280	15 041
2014	9 143	621	5 556	2 017	14 534

Price Regulation Methodology

Pursuant to the Act on Regulation No. 250/2012 Coll. and in compliance with the Regulatory Policy for the Regulatory Period 2012–2016, the Decree No. 222/2013 Coll., establishing the price regulation in thermal energy industry ("Decree No. 222/2013 Coll.") was issued. The decree, initially applied to approval of prices for 2014, has brought certain changes to the price regulation by modifying the wording of some basic terminology. It affected calculation of the economically eligible costs for the purchase of CO_2 emission quotas (also known as assigned amounts) that had been allowed up to 50% of costs over the amount assigned free of charge and necessary to perform regulated activities. The Decree No. 222/2013 Coll. defines the calculation of these costs as a difference between the amount of quotas calculated with the best available technology BAT and the amount of quotas assigned free of charge. With the application of correction coefficients, the calculation of the amount of variable costs of purchasing fuel and heat has been modified. Until 2016, this adjustment shall gradually reduce "fuel bonus" applied to the price of heat in case higher efficiency of heat-producing facilities is achieved in comparison with the normative efficiency set during the efficiency review. Another change lied in determination of the maximum price of the most widely used types of fuel for heat production by means of the correction coefficients, values of which are annually set by the Office. It became possible to use a higher profit with a financial participation of a heat supplier in rationalization measures in buildings owned by the state, municipality or non-profit organizations in order to encourage regulated entities to reduce heat consumption in buildings in the public sector. In June 2014, the Decree No. 190/2014 Coll. amending the Decree No. 222/2014 Coll. effective from 1 July 2014 was issued. Based on the practice, the decree eliminated some terminological ambiguities.

Price Monitoring

As of 1 January 2014, the Office issued 322 price decisions to set 690 maximum prices of heat for the entire regulatory period. Throughout 2014, it set additional 69 prices for 23 newly-established companies. In order to eliminate shortcomings in the price proposals, 65 price proceedings were suspended. The Office terminated 20 price proceedings for being unsubstantiated. Under the applicable law, a regulated entity may request a price modification due to a significant change in economic parameters that served as the basis for setting the original price. Based on substantiated proposals for the price modifications, the Office issued 23 decisions that altered 40 prices of heat. The price proposal owed mostly to a change in the capacity of heat facilities, a number of offtake points, a decrease in heat supply and new investments in thermal installations.

A number of the issued price decisions

Year	total no. of price decisions	no. of amended decisions	no. of approved changes
2012	363	21	651
2013	357	15	690
2014	345	23	799
as of 1 Jan 2015	-	182	475

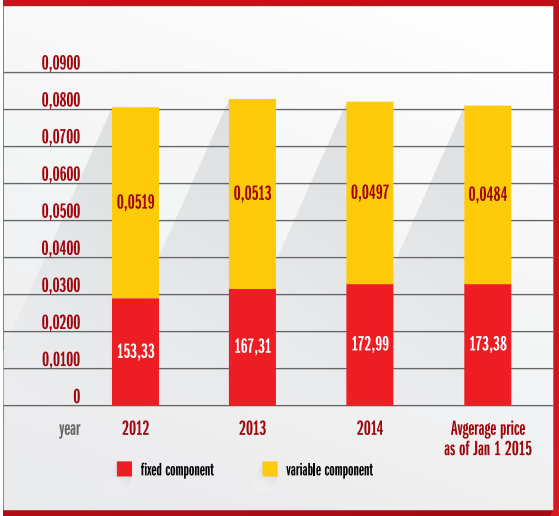
Approved changes in the variable component of the heat price during 2014 had no impact on the overall average price that remained the same from the beginning of 2014, i.e. € 0.0497/kWh. A y-o-y decrease in the variable component of the heat price by 3.1% and its stabilization for the whole of 2014 owed to a favourable price of natural gas.

The average y-o-y increase in the fixed component of the heat price set for 2014, including the price modifications approved during the year, reached 3.6%. The specific method of regulation over this regulatory period allows an annual increase in the fixed costs only to cover new investments in more efficient heat production and distribution using renewable energy sources. 45 suppliers that planned to invest € 62 mil. in heat-producing facilities applied for this option in 2014. In these cases, the depreciation costs of the new investments were reflected in the prices of heat. The volume of fixed costs of other suppliers did not exceed the level of 2013. The increase in the fixed component of the heat price by 3.4% was primarily caused by a lower supply of heat, which this component of the price is set for. The decrease in the variable component by 3.1% combined with the increase in the fixed component by 3.4% resulted in 0.7% y-o-y decrease in the average final price of heat under the price decisions issued by the Office in 2014.

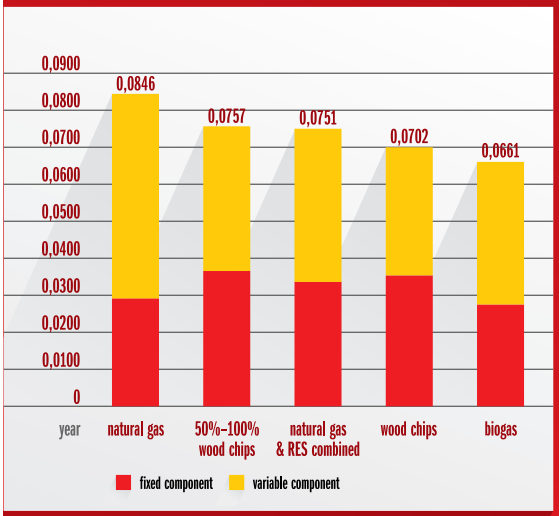
Heat price development

Year	2012	2013	2014	Average price as of 1 Jan 2015
Variable component €/kWh	0,0519	0,0513	0,0497	0,0484
Fixed component €/kW	153,33	167,31	172,99	173,38
Final price of heat €/kWh	0,0808	0,0829	0,0823	0,0811

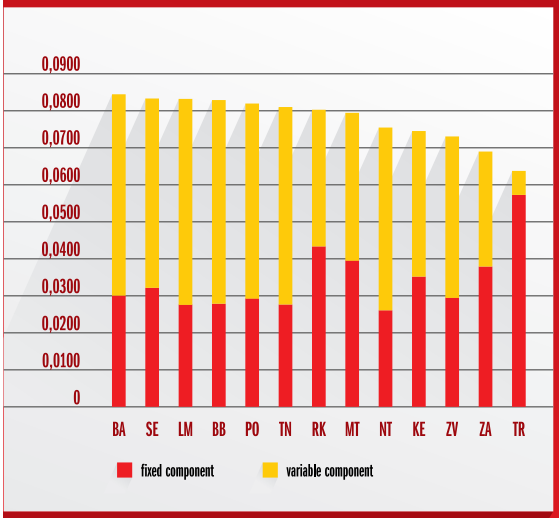
The average price of heat in €/kWh



The price of heat by fuel used in 2014 in €/kWh



Average prices of heat in selected towns in 2014 in €/kWh

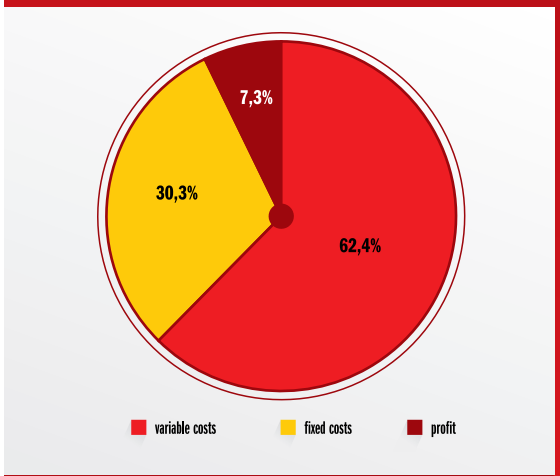


In 2014 Q4, the Office received 199 proposals for modification to decisions in which prices for production, distribution and supply of heat for the period from 1 January 2014 to 31 December 2016 were approved. The proposals mostly reflected a lower actual heat supply in 2013 (regulatory input) that affects the fixed component of the heat price and a regulatory decrease in the maximum prices of natural gas and wood chips for regulated heat prices in 2015. For these reasons, economically eligible costs, which were applied when setting the prices as of 1 January 2014, changed substantially. Reviewing the compliance of the submitted proposals with the applicable law, the Office issued 182 decisions containing 475 modified prices effective from 1 January 2015 to 1 December 2016.

Actual annual costs of heat play the most important role for residential customers. The customers pay a variable component of the heat price that includes the cost of fuel and energy for actually delivered heat. A fixed component of the heat price includes eligible costs and fair profit required to ensure heat production and distribution under the applicable law. Eligible costs of new investments in thermal industry increased the price of heat only in several cases in 2014. The variable component of the heat price declined and since it constitutes app. 62% of the final price, it effectively eliminates a moderate increase in the fixed component of the heat price. However, the actual annual costs of heat for residential

customers in 2014 declined compared to 2013 due to lower heat consumption caused by energy-saving measures and climatic conditions in the year 2014, which was considerably warmer than usual. Pursuant to the Decree No. 222/2013 Coll., heat suppliers are obliged to monitor and submit to the Office data on actual costs and actual heat supplied to particular residential buildings from 2010. Review of the data collected from 40,000 apartments in 900 residential buildings attested to the decline in consumption of heat and lower costs of heating and hot water preparation.

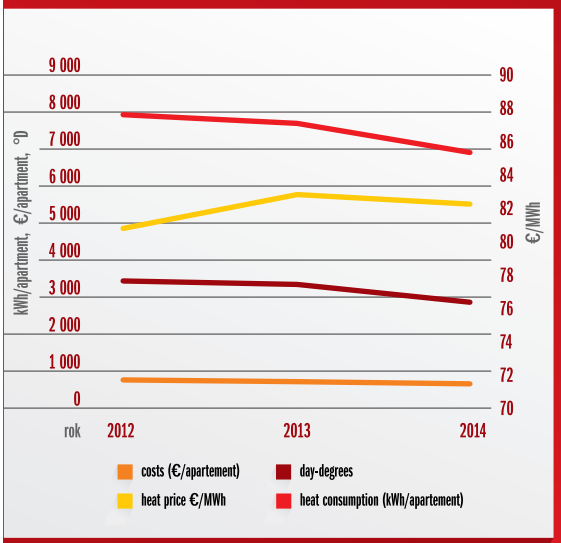
Structure of costs of heat price in 2014



Costs of heating and hot water preparation

Year	2012	2013	2014
Heat consumption [kWh/apartment]	7948	7712	6941
Day-degrees [°D]	3462	3368	2888
Costs per apartment incl. VAT [€/apartment]	766	744	664
Price of heat [€/MWh]	80,8	82,9	82,3

Development in heat consumption and costs per apartment



Following up on complaints submitted by customers, the Office issued 310 opinions in 2014. The most common complaint related to the amount of a set price of heat and the method of calculation of costs pursuant to the Decree No. 630/2005 Coll. Other opinions dealt with the method of regulation in the thermal energy industry, the application of new obligations required from a heat supplier pursuant to the Act. No. 657/2004 Coll. on Thermal Energy Industry as amended, a guidance on cost settlement at the end of the regulatory year, contractual obligations of thermal energy market stakeholders and conditions of heat supply termination.

4[Water Management]

Production, Distribution and Supply of Potable Water via the Public Water Supply System and Collection and Treatment of Waste Water via the Public Sewage System

Following the adoption of the new Act on Regulation in 2014, a number of significant changes in the area of water management emerged. The main objective of the legislative changes was to ensure that supply of potable water via the public water supply system and collection of waste water via the public sewage system become regulated activities in small municipalities as well. An owner of a public water supply system or public sewage system or their less or even a person whom the owner has transferred the obligation to register to and who uses the public water or sewage system to carry out a regulated activity under the issued confirmation of registration became a regulated entity. The regulated entity, which uses the public water or public sewage system of category I or II to perform a regulated activity, shall submit a price proposal to the Office in accordance with the generally binding law. In price proceedings, the Office shall approve or set a price by issuing a price decision. If a regulated entity is a municipality, which owns the public water supply and public sewage system of category III, it shall also announce the price calculated in a manner and to an extent specified in the generally binding regulation. The Office shall issue confirmation of the price to the regulated entity in form of a notification.

In accordance with the recent amendments to the law, 599 regulated entities, including 14 water companies, were registered until 31 December 2014. After termination of the long-term contract on lease and operation with Trenčianska vodohospodárska spoločnosť, a. s., the operator of the water infrastructure in the districts of Trenčín, Nové Mesto nad Váhom and a part of the Myjava district changed. Trenčianske vodárne a kanalizácie, a.s., the owner of the infrastructure, has begun to operate the infrastructure in this region as well.

Compared to 2013, a number of price decisions and confirmations issued in 2014 doubled as a result of the recent legislative changes.

[An overview of decisions issued]

Year	2012	2013	2014
Price decisions	177	191	140
Modified price decisions	8	6	8
Price confirmations	x	x	479
Decisions on excluding regulated activities from regulation	94	103	0
Decisions on terminated proceedings	19	16	12
Decisions on suspended proceedings	26	18	12
Total	324	334	651

Price Monitoring

The doubled number of the regulated entities and the price regulation applied also to small municipalities in 2014 did not affect the prices. The price of water remained stable for the majority of the Slovak population with water companies supplying potable water to as many as 95% of all residents.

When setting the prices and modifying the price decisions, the Office complied with the Decree No. 195/2013 Coll. defining the price regulation in the area of production, distribution and supply of potable water via the public water supply system and collection and treatment of waste water via the public sewage system.

Over this regulatory period, when applying the price cap methodology to the price regulation, the maximum price set in the previous year shall be only adjusted by regulatory depreciation if a new water supply asset is included and according to the actual use of the designed capacity of the water supply asset for performance of the regulated activities. In accordance with the applicable law, a regulated entity may propose a modification to a price decision due to a significant change in economic parameters affecting economically eligible costs used as the basis for determination of the price of a regulated activity and support such change with relevant data and analysis of economic indicators.

The Office approved or set 801 prices of water for the year 2014. Under the applicable law, price decisions and confirmations issued for 2014 shall remain applicable until the end of the regulatory period - the years 2015 and 2016, unless the Office approves a modification to the price decision.

In 2014, 5 out of 14 water companies requested the Office to modify the price decision pursuant to the Act on Regulation on grounds of a significant change in the economic parameters compared to those which served as the basis for setting the prices for 2014. In the area of potable water, the most frequent reason for the change was required funding to cover the increased cost of repairs of the public water supply system. The proposed increases in the price of waste water were justified by higher operating costs related to use of new water facilities.

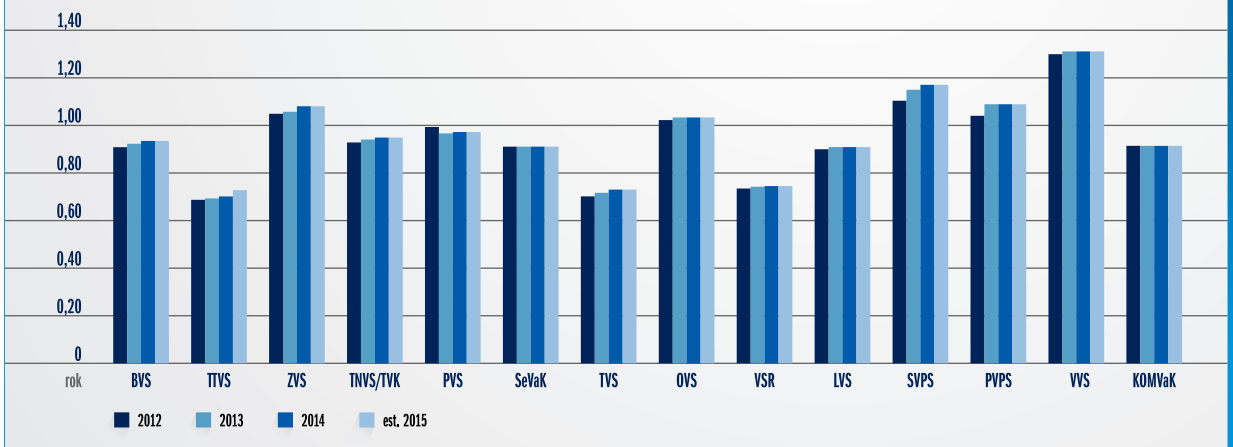
After thoroughly reviewing and documenting higher eligible costs, the Office approved the proposed modification to the price decision to 3 water companies effective in 2014 and another 1 effective from 2015. The Office dismissed the proposed increases to 2 companies as unfounded. In line with the inspection findings, the Office initiated a price change in 1 water company by decreasing the maximum price for waste water collection and treatment due to inadequacy of the eligible costs that impacted the pricing.

Prices for Production, Distribution and Supply of Potable Water via the Public Water Supply System

Applying the price cap method to setting prices for production, distribution and supply of potable water via the public water supply system in 2014 and based on the approved price changes throughout 2014 for Západoslovenská vodárenská spoločnosť and Stredoslovenská vodárenská prevádzková spoločnosť, the average price increased by 1% y-o-y to € 1.0393/m³ excl. VAT. The prices ranged from € 0.7012/m³ charged by Trnavská vodárenská spoločnosť up to € 1.3100/m³ paid to Východoslovenská vodárenská spoločnosť. The prices remained intact in 6 water companies. The following table shows year-on-year price development:

Development of prices for production and supply of potable water in €/m³ (excl. VAT)

	2012	2013	2014	est. 2015
Bratislavská vodárenská spoločnosť	0,9106	0,9235	0,9359	0,9359
Trnavská vodárenská spoločnosť	0,6879	0,6939	0,7012	0,7286
Západoslovenská vodárenská spoločnosť	1,0518	1,0581	1,0802	1,0802
Trenčianska VS/Trenčianske VaK (from 2015)	0,9300	0,9409	0,9495	0,9494
Považská vodárenská spoločnosť	0,9943	0,9684	0,9741	0,9741
Severoslovenské vodárne a kanalizácie	0,9126	0,9126	0,9126	0,9126
Turčianska vodárenská spoločnosť	0,7045	0,7170	0,7302	0,7302
Oravská vodárenská spoločnosť	1,0246	1,0353	1,0353	1,0353
Vodárenská spoločnosť Ružomberok	0,7370	0,7416	0,7460	0,7460
Liptovská vodárenská spoločnosť	0,9019	0,9102	0,9102	0,9102
Stredoslovenská vodárenská prevádzková spoločnosť	1,1022	1,1504	1,1700	1,1700
Podtatranská vodárenská prevádzková spoločnosť	1,0415	1,0884	1,0884	1,0884
Východoslovenská vodárenská spoločnosť	1,3001	1,3100	1,3100	1,3100
Vodárne a kanalizácie mesta Komárno	0,9162	0,9162	0,9162	0,9162



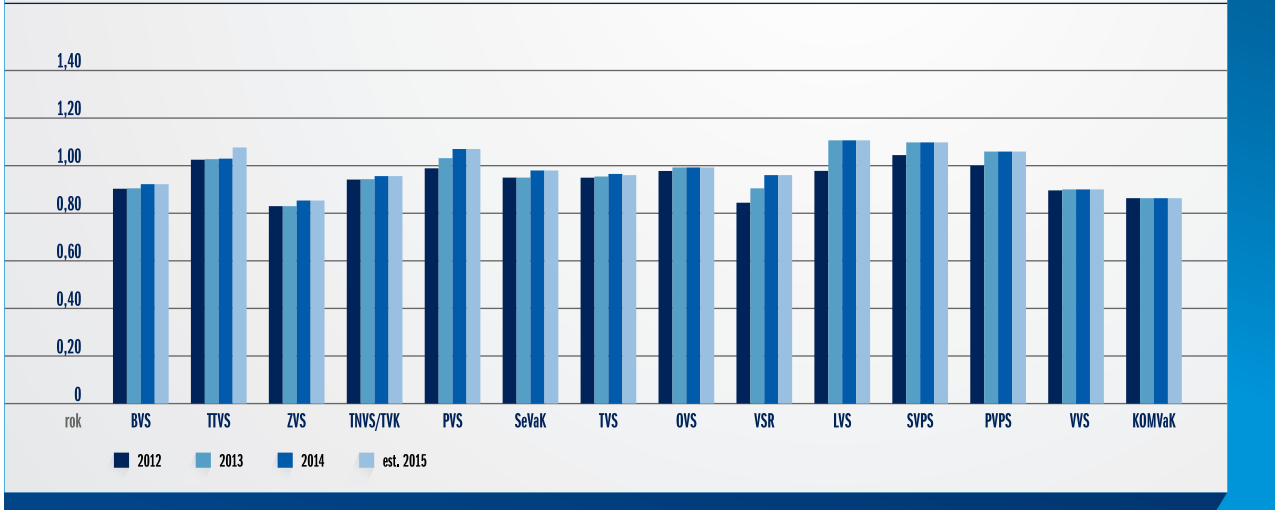
Prices for Collection and Treatment of Waste Water by the Public Sewage System

The Office applied the identical methodology to prices for collection and treatment of waste water via the public sewage system in 2014. Individual prices rose depending on an extent of investments made to public sewage systems and waste water treatment plants in a given region, which substantially affect the price, mainly in case of an insufficient number of customers connected to the new public sewage system.

Price decisions on setting prices for collection and treatment of waste water via the public sewage system issued in 2014, including the price change for Západoslovenská vodárenská spoločnosť, increased by more than 1.2% y-o-y, whereas the prices of 6 water companies remained unchanged. The average price stood at € 0.9536/m³ excl. VAT. Despite the higher growth, the average price is still lower than the average price for supply of potable water. The year-on-year price development is shown in the following table.

Development of prices for collection and treatment of waste water in €/m³ (excl. VAT)

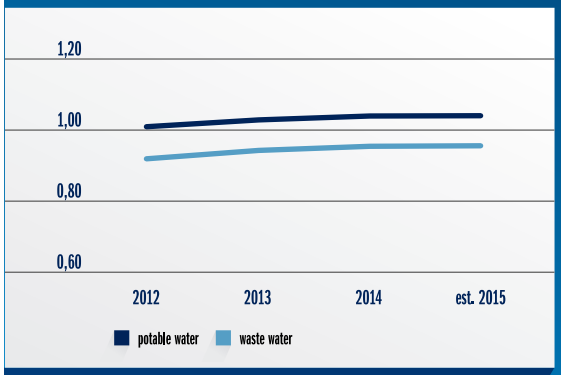
	2012	2013	2014	est. 2015
Bratislavská vodárenská spoločnosť	0,9030	0,9051	0,9216	0,9216
Trnavská vodárenská spoločnosť	1,0253	1,0261	1,0292	1,0758
Západoslovenská vodárenská spoločnosť	0,8302	0,8286	0,8538	0,8538
Trenčianska VS/Trenčianske VaK (from 2015)	0,9416	0,9435	0,9555	0,9554
Považská vodárenská spoločnosť	0,9898	1,0305	1,0700	1,0700
Severoslovenské vodárne a kanalizácie	0,9500	0,9500	0,9797	0,9797
Turčianska vodárenská spoločnosť	0,9499	0,9547	0,9639	0,9591
Oravská vodárenská spoločnosť	0,9778	0,9916	0,9916	0,9916
Vodárenská spoločnosť Ružomberok	0,8456	0,9047	0,9603	0,9603
Liptovská vodárenská spoločnosť	0,9792	1,1068	1,1068	1,1068
Stredoslovenská vodárenská prevádzková spoločnosť	1,0443	1,0983	1,0983	1,0983
Podtatranská vodárenská prevádzková spoločnosť	1,0006	1,0585	1,0585	1,0585
Východoslovenská vodárenská spoločnosť	0,8962	0,9000	0,9000	0,9000
Vodárne a kanalizácie mesta Komárno	0,8643	0,8643	0,8643	0,8643



In 2014, the average prices of waste water collection and treatment rose by 1.1% to € 1.9929/m³ excl. VAT in Slovakia. The highest y-o-y increase of 3.6% was recorded in Vodárenská spoločnosť Ružomberok. The lowest price was paid to Turčianska vodárenská spoločnost (€ 1.6941/m³) and the highest one of € 2.2683/m³ to Stredoslovenská vodárenská prevádzková spoločnosť. The prices remained intact in 5 water companies throughout 2014.

Based on changes in price decisions for the year 2015 issued by the Office in 2014, the average increase in prices should be minimal. The prices of potable and waste water should rise by marginal 0.1% and 0.2%, respectively. 11 water companies have kept their prices unchanged for 2015.

Development of the average price for production and supply of potable water and collection and treatment of waste water in €/m³ (excl. VAT)



In 2014, the Office set the maximum prices also for smaller water companies and municipalities that supply potable water or collect and treat waste water mainly in villages and smaller suburban areas.

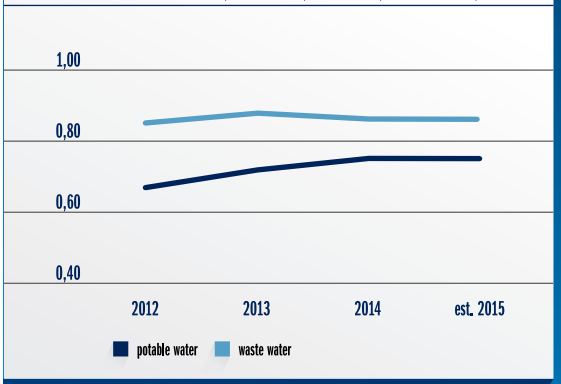
The Office issued 125 price decisions covering 195 prices of water to the smaller water companies, but the price changed only in four cases.

In 2014, the Office issued 479 price confirmations on 554 prices of water to municipalities that own and run the public water supply or sewage systems of category III (app. 2,000 residents). The municipalities did not request any price change in 2014, which could have been influenced by the municipal elections.

The average price for production and supply of potable water increased by 4.4.% excl. VAT in 2014 in this small group of regulated entities, while the average price for collection of waste water decreased by 2%. The higher average price change in potable water and the lower one in waste water owed to a 50% more fixed prices set for 2014. The prices of waste water collection already exceed the prices of potable water supply, which is a result of construction of new public sewage systems and waste water treatment plants.

Development of prices for small regulated entities in €/m³ (excl. VAT)

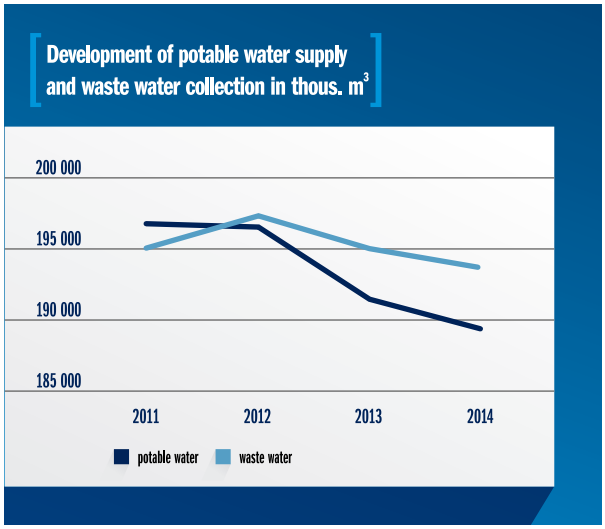
Year	2012	2013	2014	est. 2015
Potable water	0,6712	0,7204	0,7524	0,7524
Waste water	0,8546	0,8816	0,8644	0,8644



Potable Water Supply and Waste Water Collection

The supply of potable water by water companies has been continually decreasing by 1–2% y-o-y. Despite the construction of new public water supply systems, the consumption has declined by 17% since 2005. The lower supply of potable water has also resulted in less waste water collected and treated via the public sewage systems, although the decrease reached only 6%. In 2012, the decline of potable water supply stopped and the amount of waste water even increased slightly due to the construction of new sewage systems in small municipalities. However, the downward trend in water consumption has resumed in the following years with even a greater annual decline in the consumption of potable water recorded.

Water companies see the reason in further savings of residential customers or substituting of potable water with water from customers' own sources despite the fact that the price of potable water has not significantly changed. Similarly, large corporate customers have also been more saving-oriented.

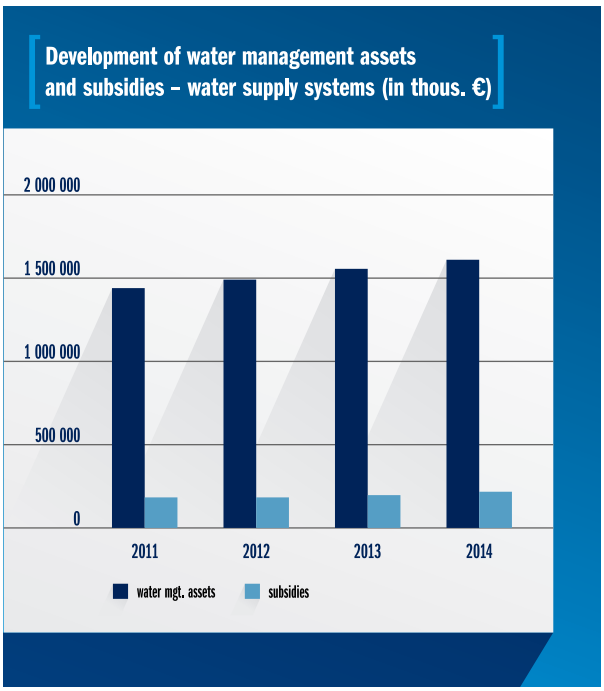


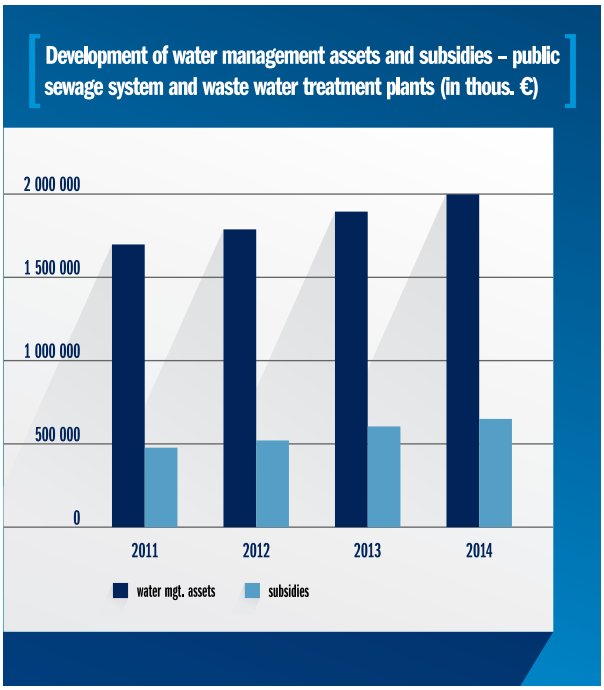
Investments

The current investments made in the water management are primarily related to the obligations in the area of waste water treatment, which the Slovak Republic committed to fulfil until 2015 when joining the European Union. All municipalities with 2,000 and more residents must have the sewage system and treated waste water in place. As a result, an increase in asset value in waste water compared to potable water was two-fold in 2014. Potable water supply infrastructure is being expanded in the regions with missing public water supply systems.

Based on the data from water companies for 2014, subsidies from the European Union and the state budget covering capital investments to potable water supply increased by 8% y-o-y, while the share of the investments on total assets reached 13%. The growth of subsidies aimed at collection and treatment of waste water was double the investments made to potable water supply until 2013. In 2014, however, they matched the pace of the growth recorded in potable water only at 8%. Nevertheless, their share of total assets was much larger and constituted 32%.

Total assets of water companies at cost value and the value of assets funded from the subsidies in the years 2011–2014 are documented in the following charts.





Utilization of Water Assets Capacity

Based on the data on total projected capacity and actual use of the capacity of water supply systems operated by water companies, the average utilization of public water supply systems reached 92% in 2014 and has not changed since 2011. The below average capacity utilization is reported only by 3 water companies.

Utilization of sewage treatment plants remained low at 77%, which represents only 1% y-o-y increase. The lower utilization reflects both the reduction of the total amount of collected waste water and also the fact that new producers do not connect to the newly-built public sewage systems in smaller municipalities as required by the applicable law. In addition, the capacity utilization of waste water treatment plants is also affected by the annual amount of precipitation collected via the public sewage systems.

[Development of indicators for regulated activities in water companies]

Potable water	2011	2012	2013	2014	change 2014/2013	%
Revenues from reg. activities in thous. €	187 891	197 241	196 407	195 649	-758	0
Eligible costs in thous. €	187 855	191 017	191 779	190 272	-1 507	-1
of which water management assets repair costs in thous. €	26 842	30 724	28 386	28 044	-324	-1
Water management assets in thous. €	1 445 384	1 500 138	1 558 373	1 614 141	55 768	4
out of subsidies in thous. €	178 613	186 311	198 880	214 851	15 971	8
Water volume in thous. m^3	196 784	196 560	191 439	189 345	-2 094	-1
Water management assets capacities utilization	92%	92%	92%	92%	0%	0
Waste water	**2011**	**2012**	**2013**	**2014**	**change 2014/2013**	**%**
Revenues from reg. activities in thous. €	170 795	175 988	182 104	183 116	1 012	1
Eligible costs in thous. €	164 463	175 691	171 630	173 710	2 080	1
of which water management assets repair costs in thous. €	14 438	16 728	17 395	16 226	-1 169	-7
Water management assets in thous. €	1 704 058	1 791 539	1 898 987	2 009 841	110 854	6
out of subsidies in thous. €	480 616	528 670	605 217	652 533	47 315	8
Water volume in thous. m^3	195 080	197 306	195 022	193 707	-1 315	-1
Water management assets capacities utilization	76%	73%	78%	77%	-1%	-2

Use of Surface Water

Collection of surface water and energy water from watercourse and utilization of hydropower potential of watercourse are subject to price regulation under the applicable law.

Slovenský vodohospodársky podnik, š.p., Banská Štiavnica, a manager of water flows appointed by the government, is a dominant regulated entity acting as a monopoly that performs the regulated activities in this area.

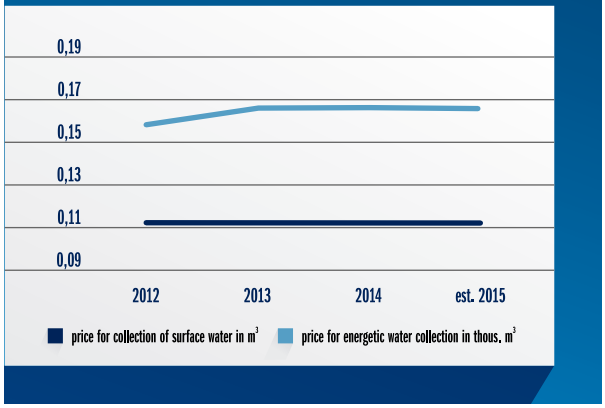
The Act on Regulation and subsequent Decree No. 194/2013 Coll., amended the method of price regulation in 2014. While the prices were set as the maximum prices until 2013, pursuant to the Article 12 Section 8 of the Act on Regulation, the method of price regulation was defined as calculation of fixed prices for regulated activities. These fixed prices shall remain effective until the end of the regulatory period unless modified by a relevant price decision issued by the Office. The regulated entity may only request a price modification due to a significant change in economic parameters affecting economically eligible costs, which served as the basis for the original price determination and support such change request with analyses.

Based on this, the Office set a fixed price for surface water collected from a watercourse for the regulated entity Slovenský vodohospodársky podnik, š.p., Banská Štiavnica for 2014. The price has remained intact for 3 consecutive years. Similarly, the average price for use of the hydropower potential of the watercourse has remained the same since 2013, subject to the different prices applied – a fixed price for each user group of the hydropower potential depending on the installed capacity of a hydroelectric power station. Finally, the fixed price for collection of energy water from watercourse for 2014 was identical with the maximum price set for 2013.

Prices for use of surface water in EUR (excl. VAT)

	2012	2013	2014	predp. 2015
Price for collection of surface water in m^3	0,1122	0,1122	0,1122	0,1122
The average price for hydropower potential utilization for 1 MWh	15,3770	15,7552	15,7552	15,7552
Price for energ. water coll. in thous. m^3	0,1580	0,1659	0,1659	0,1659

Development of water collection prices (in €)



Development of water collection prices in €/MWh (excl. VAT)

In 2014, customers submitted 9 complaints to the Office in the area of water management, of which 3 complaints did not fall within the competence of the Office and 6 complaints related to a set fixed price. In addition, the Office resolved 58 motions within the legally set deadline.

5 [Regulation under the Standards of Quality and Analytical Activities]

Quality Standards

Pursuant to the Article 22 of the Act No. 250/2012 Coll., the objective of the regulatory policy of the Office is to foster the market principles in network industries with an emphasis given on protection of a customer and eligible interests of regulated entities. The preference is given to the use of incentive regulatory methods and monitoring and sanctioning of any failure to comply with the standards of quality as a new method of regulation.

A number of delivered reviews and recorded events in the electricity industry

Electricity	Electricity transmission	Electricity distribution	Electricity supply
No. of reviews delivered	1	122	155
No. of events recorded	14	7 985 083	230 024
No. of events recorded with a violation of the standards of quality	0	19 299	751
A share of recorded events with a violation of the standards of quality on events recorded in total	0 %	0,24 %	0,33 %

A number of delivered reviews and recorded events in the thermal energy industry

Thermal energy	Heat supply
No. of reviews delivered	322
No. of events recorded	75 326
No. of events recorded with a violation of the standards of quality	71
A share of recorded events with a violation of the standards of quality on events recorded in total	0,09 %

A number of delivered reviews and recorded events in the gas industry

Gas	Gas storage	Gas transmission	Gas distribution	Gas supply
No. of reviews delivered	2	1	39	62
No. of events recorded	735	280	43 882	171 963
No. of events recorded with a violation of the standards of quality	0	5	2	1 015
A share of recorded events with a violation of the standards of quality on events recorded in total	0 %	1,79 %	0,005 %	0,59 %

A number of delivered reviews and recorded events in the water management industry

Water	Potable water supply	Waste water collection
No. of reviews delivered	39	38
No. of events recorded	58 467	38 940
No. of events recorded with a violation of the standards of quality	566	163
A share of recorded events with a violation of the standards of quality on events recorded in total	0,97 %	0,42 %

[An overview of compensations paid out in 2014]

	Regulated activity	Eur
Electricity	Transmission	0,00
	Distribution	339 009,60
	Supply	24 097,00
	Total	363 106,60
Gas	Storage	-
	Transmission	-
	Distribution	20
	Supply	45 997
	Total	46 017
Thermal energy	Heat supply	3 922,90
Water	Potable water supply	1 036,92
	Waste water collection	15,01
	Total	1 051,93

In 2014, suppliers were paid out EUR 414 098,43 in total.

Compliance with the Article 29 Sections 2, 3, 4 and 5 of the Act 250/2012 Coll.

In order to create equal conditions in the market, the Office monitors the activities of network operators and networks to prevent them benefit from vertical integration. A regulated entity, engaged in regulated activities in the electricity and gas industry, which is a part of a vertically integrated undertaking, shall submit to the Authority a service level agreement or its amendment for approval. In 2014, 33 service level agreements were submitted to the Office for approval, of which 29 were approved and 1 rejected.

The Office created an electronic database of regulated entities that announced a public tender and submitted the data required pursuant to the Article 29 Sections 2, 3, 4 and 5 of the Act 250/2012 Coll. to the Office. In 2014, 394 public tenders were announced, of which 299 were completed.

In addition, the Office has established an electronic database of regulated entities with delivered contracts in excess of EUR 300,000. In 2014, the Office was notified of 862 delivered contracts by 96 regulated entities.

6 [Performance of Inspection]

Pursuant to the Act 250/2012 Coll., the Office performed inspections in 130 regulated entities, of which 70 failed to comply with the obligations laid down in the Act No. 276/2001 Coll., Act No. 250/2012 Coll. and Act No. 251/2012 Coll. in 2014. The inspections were carried out in line with the plan of inspection activities, requests submitted by natural and legal persons and on the basis of the operational needs of the Office. The Office imposed measures to eliminate and rectify the identified shortcomings and also penalties to the entities that violated the law.

In 2014, the Office verified the conditions of regulation set for the years 2009–2014.

The Office continued to monitor compliance of the applicable regulation rules in the thermal energy, i.e. control of eligible costs and a fair profit included in the price of heat for the years 2009–2011 and settled in 2012, for the year 2012 and settled in 2013, and for the year 2013 and settled in 2014. In addition to the controls aimed at the price regulation in the heat supply, the Office also monitored compliance of performance of regulated activities with a business license, compliance with quality standards and implementation of the measures imposed to eliminate and rectify the identified shortcomings. 111 producers and suppliers of heat were inspected with 88 violations of the law in 50 entities identified.

The objective of inspections the Office carried out in the electricity and gas industries was to verify the compliance of regulated activities with a business license, compliance with price regulation, the rules of the electricity and gas markets and the operating rules of the operator of the distribution system and the network, compliance with the quality standards, separate recording of facts that are subject to accounting, veracity of supporting documents and information submitted to the Office as well as the implementation of the measures imposed to eliminate and rectify the shortcomings as identified in the previous inspection. In the electricity sector, 89 entities were inspected, of which 43 violated the law in 109 cases. In the gas sector, 10 entities were inspected, of which 8 violated the law in 42 cases.

Inspections of the electricity and gas suppliers were aimed at reviewing their compliance with the provisions on the protection of electricity and gas customers as defined in the Articles 17 and 17a of the Act No. 251/2012 Coll., business terms and conditions approved by the Office, compliance with the process of supplier switching and the obligations of a supplier after completion of the switching process. In addition, correct settlement of compensation payments for non-compliance with the quality standards of delivery and the obligation of the supplier to disburse the compensation payment for low quality of electricity or gas distribution to a customer of electricity or gas.

Special attention was paid to producers of electricity from renewable energy sources. 71 producers, which generate electricity by burning biogas produced by anaerobic fermentation technology, high-efficiency combined production in the combustion engine fuelled from catalytic processing of waste and electricity produced by burning of gas from sewage treatment plants, were inspected. The Office reviewed compliance with the legal obligations related to a receipt of support for the electricity production as well as compliance with other legal obligations.

The Office found that 26 entities failed to comply with the following legal obligations applied to the networking industries:

- lower use of heat than specified by an entity in price proceedings,
- misapplication of a surcharge to the price of the electricity produced,
- violation of the obligation to measure produced electricity at the terminals of the electricity produced or measure heat supply by a specified heat meter,
- supply of electricity without authorization or without performance of the notification duty,
- sale of heat without a business license,
- non-compliance with the operating rules of the distribution system operator,
- submission of false information to the Office or a failure to meet a set deadline or a failure to fulfil the notification duty to the Office.

16 entities that use wood biomass to produce electricity and heat were inspected. In several cases, a suspicion that chip is made from wood logs, which are suitable for different appreciation than wood biomass production, was confirmed.

In the water management, the Office reviewed the eligibility of costs incurred in performance of regulated activities and accuracy of data submitted to the

Office, compliance with price and objective regulation and quality standards. Violations of the law were detected in 2 of 5 entities controlled.

The inspection findings resulted from non-compliance with the Act No. 276/2001 Coll. until August 31, 2012 with the Acts No. 250/2012 Coll. and No. 251/2012 Coll. from September 1, 2012.

An overview of identified shortcomings

1. Violation of the Article 11 Section 1 of the Act No. 276/2001 Coll., Section 1 of the Act No. 657/2004 Coll., Article 29 Section 1 Letter a) of the Act No. 250/2012 Coll., Article 4 Section 5 and Article 6 Section 1 of the Act No. 251/2012 Coll. – non-performance of the regulated activity on the basis and within the scope of a license issued by the Office or the confirmation of fulfilment of notification duty. 70 findings were identified in:
   - electricity industry 16
   - gas industry 10
   - thermal energy 44

2. Violation of the Article 12a Section 6 of the Act No. 276/2001 Coll. – non-compliance with the operation rules by the market participants. 1 finding was identified in:
   - electricity industry 1

3. Violation of the Article 13 Section 2 Letter a) of the Act No. 276/2001 Coll. – non-performance of the regulated activity under the law and special regulations. 11 findings were identified in:
   - electricity industry 7
   - gas industry 2
   - thermal energy 2

4. Violation of the Article 13 Section 2 Letter b) of the Act No. 276/2001 Coll. or the Article 29 Section 1 Letter b) of the Act No. 250/2012 Coll. – non-compliance with the defined method of price regulation and non-performance of delivery of goods and services in line with the approved or set prices. 44 findings were identified in:
   - electricity industry 12
   - gas industry 10
   - thermal energy 22

5. Violation of the Article 13 Section 2 Letter c) of the Act No. 276/2001 Coll. – non-submission of a proposal for setting of a price of goods or service, the price of which is regulated in a manner and within the scope under the generally binding regulation issued by the Office. 1 finding was identified in:
   - thermal energy 1

6. Violation of the Article 13 Section 2 Letter d) of the Act No. 276/2001 Coll. – a failure to keep records of facts that are subject to accounting under the special regulation issued by the Office separated. 1 finding was identified in:
   - electricity industry 1

7. Violation of the Article 13 Section 2 Letter g) of the Act No. 276/2001 Coll., the Article 22 Section 4 Letter h) and Article 22 Section 5 of the Act No. 250/2012 Coll. – non-compliance with the standard of quality of delivered goods and services defined by the Office and non-submission of reviewed standards of quality of delivered goods and services to the Office under the generally binding legal regulation issued by the Office or non-performance of a compensation payment to a customer. 12 findings were identified in:
   - electricity industry 6
   - gas industry 3
   - thermal energy 3

8. Violation of the Article 13 Section 2 Letter i) of the Act No. 276/2001 Coll., Article 13 Section 4 and Article 29 Section 1 Letter o) of the Act No. 250/2012 Coll. – non-compliance with the rules of electricity and gas market operation. 19 findings were identified in:
   - electricity industry 14
   - gas industry 5

9. Violation of the Article 29 Section 1 Letter c) of the Act No. 250/2012 Coll. – non-settlement of costs of heat production, distribution and supply that are not considered economically eligible costs in a manner and within the deadline set by the Office – 11 findings were identified in:
   - thermal energy 11

10. Violation of the Article 29 Section 1 Letter d) of the Act No.250/2012 Coll. – non-compliance with the adequacy of expended costs during performance of a regulated activity. 1 finding was identified in:
    - water management 1

11. Violation of the Article 29 Section 1 Letter k) of the Act No. 250/2012 Coll. – non-provision of complete and true data, supporting documents, documents for performance of the Office within the scope, in a manner and deadlines set by the Office. 27 findings were identified in:
    - electricity industry 21
    - gas industry 1
    - thermal energy 4
    - water management 1

12. Violation of the Article 29 Section 1 Letter l) of the Act No. 250/2012 Coll. – non-performance of measures aimed to eliminate and rectify the shortcomings identified during the inspection. 3 findings were identified in:
    - electricity industry 2
    - gas industry 1

13. Violation of the Article 34 Section 2 Letter b) of the Act No. 250/2012 Coll. – non-provision of assistance in performance of inspection. 1 finding was identified in:
    - thermal energy 1

14. Violation of the Article 45 Section 5 of the Act No. 250/2012 Coll. – non-submission of incorporated specific conditions of distribution system/network operation in the model rules of operation to the Office for approval within the set deadline. 1 finding was identified in:
    - electricity industry 1

15. Violation of the Article 45 Section 6 of the Act No. 250/2012 Coll. – non-submission of incorporated specific conditions of electricity and gas supply in the model rules of operation to the Office for approval within the set deadline. 1 finding was identified in:
    - electricity industry 1

16. Violation of the Article 17 Sections 9 to 13 and Section 15 of the Act No. 251/2012 Coll. – non-compliance with the legal regulation of electricity or gas customer protection related mainly to switching. 23 findings were identified in:
    - electricity industry 13
    - gas industry 10

17. Violation of the Article 27 Section 2 Letter q) of the Act No. 251/2012 Coll. – non-compliance with the obligation of an electricity producer to annually submit data on produced electricity to the Office within the set deadline. 12 findings in the following area:
    - electricity industry 12

18. Violation of the Article 34 Section 2 Letter f) of the Act No. 251/2012 Coll. – non-submission of business terms and conditions to the Office for approval 30 days prior to their date of effect. 1 finding was identified in:
    - electricity industry 1

19. Violation of the Article 41 Section 7 of the Act No. 251/2012 Coll. – non-informing the Office of an exception from measuring electricity at the terminals. 1 finding was identified in:
    - electricity industry 1

Measures taken to rectify the identified shortcomings

To eliminate and rectify all shortcomings identified in the inspections, the Office imposed 124 measures in total, of which in:
- electricity industry 47 measures,
- gas industry 17 measures,
- thermal energy 58 measures,
- water management 2 measures.

In the measures aimed at eliminating and rectifying the identified shortcomings, the Office requested that the regulated entities refund electricity and heat customers with a difference between the applied price and the price that should have been applied under the applicable law
in the total amount of € 92,450.07
of which to:
- electricity customers € 788.69
- heat customers € 91,661.38
  of which:
  - a variable component of the maximum price € 75,015.64
  - a fixed component of the maximum price € 16,645.74

Penalties for violation of the law imposed in the first instance of the legal proceedings

Pursuant to the Article 5 of the Act. 71/1967 Coll. on the Administrative Proceedings, the Office as the designated competent administrative authority shall decide violations of the obligations arising out of the Act on Regulation and special regulations in the

[An overview of administrative proceedings held in 2014]

ADMINISTRATIVE PROCEEDINGS		DECISIONS			
		issued		effective	
		no.	penalty (€)	no.	penalty (€)
I. INSPECTIONS IN REGULATED ENTITIES		59	470 790,00	53	151 490,00
II. INSPECT. IN THE OFFICE	- Non-submission of price proposal * heat	32	16 000,00	32	16 000,00
	- Non-submission of price proposal *water	1	1 000,00	0	0
	- Non-informing of a price of water	9	1 600,00	9	1 600,00
	- Non-informing of a change in data in the conf. of reg.	1	1 000,00	0	0
	- Non-provision of supporting doc. and data from the reg.	1	1 000,00	1	1 000,00
	- Non-submission of actual costs (heat)	17	8 500,00	17	8 500,00
	- Non-submission of the quality standards	51	25 500,00	54	27 000,00
		17	17 000,00	21	21 000,00
	- Non-submission of data from the registry	49	24 500,00	46	23 000,00
TOTAL		237	566 890,00	233	249 590,00

first instance administrative proceedings. Pursuant to the Article 9 Section 1 Letter c) of the Act No. 250/2014 Coll., the Office decided to impose a penalty for administrative torts committed by violation of the obligations laid down in the Act on Regulation and the Act on Energy. The penalties imposed resulted from

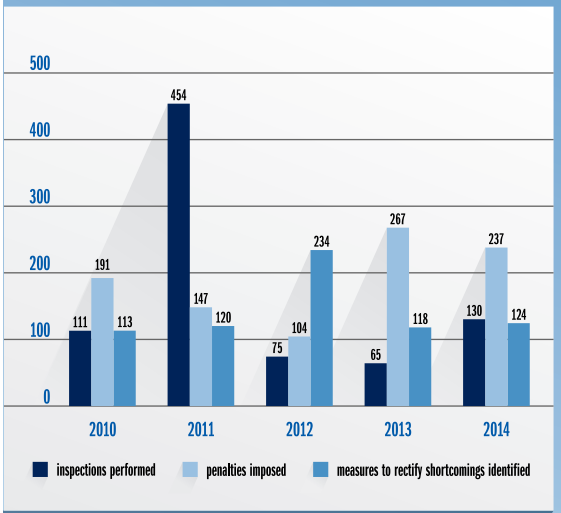
- inspections performed directly in the regulated entities,

and also violation of the obligations the Office detected in the course of its regular administrative activities as follows:

- failure to submit price proposals for the year 2013 in the thermal energy and water management,
- failure to inform of a price for water,
- failure to inform of changes in data in the confirmation of registration,
- failure to provide supporting materials and data from the registry,
- failure to submit actual costs in the thermal energy within the set deadline,
- failure to submit the quality standards,
- failure to submit data from the registry.

Out of 237 decisions on imposing a penalty issued in the first instance administrative proceedings, 36 were appealed to the second instance administrative proceedings.

[An overview of performed inspections, imposed penalties and measures in the years 2010–2014]



In 2014, the Control Department received 185 complaints from customers. The complaints related to problems of customers that the Office is competent to resolve, in particular requests for control of electricity, gas, heat and water prices. Other requests related to the process of switching an electricity and gas supplier, compliance with the quality standards specified in the regulated goods and servi-

ces and the operating rules of distribution system and distribution network operators. The Office was authorized to deal with 46% of all requests submitted for review.

The Office was not entitled to review more than a half of all requests for inspection. The Office either assigned these requests to the eligible control authority or provided an explanatory opinion.

7 [Motions, Complaints]

A number of motions followed the trend begun in 2013. The Office received more than 518 motions from customers in 2014. The motions related mainly to settlement invoices issued for electricity or gas supply in which customers complained about incorrectly measured or invoiced consumption of electricity or gas, problems with non-compliance with due dates for payment of an overcharge, a failure to issue a settlement invoice within the legally set deadline and dissatisfaction with complaint resolution.

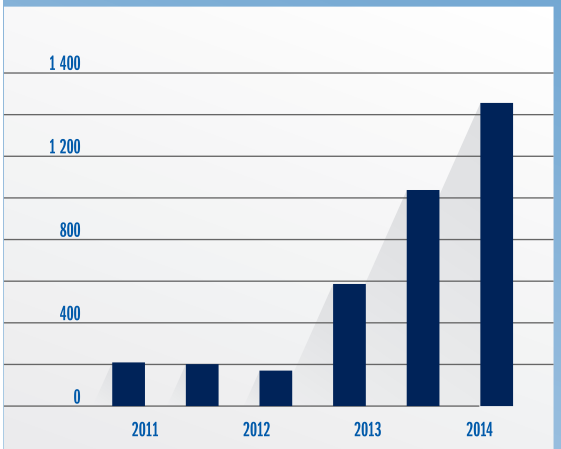
Other reasons included a failure to comply with the legal provisions related to switching of suppliers, invoicing of deactivation fees charged for a lack of cooperation on behalf of customers when switching suppliers, the circumstances of entering into a contract on combined commodity supplies and conduct of sales representatives when concluding contracts with customers (malpractice). Customers also frequently faced issues related to termination of a contractual relationship such as fixed term contracts, a notice period, issuing of a final settlement invoice, advance payments or a disruption to commodity supply to offtake points.

In several cases, the Office reviewed compliance with business terms and conditions by suppliers related to definition of the operating rules by particular distributors based on complaints raised by customers or from its own activities.

In the second half of 2014, several complaints related to the last resort supplies or amendments to assistance services and their potential termination, in which customers did not agree with linking the assistance services with a contract on combined supplies of electricity and gas.

Not all motions pertained to the areas of responsibility of the Office (heat settlement, hot water settlement as a part of costs of apartment by a house manager, unauthorized consumption). These were assigned to the Inspectorate of the Slovak Trade Inspection, the Slovak Environmental Inspectorate and the Office of Electronic Communications and Postal Services Regulation for further review.

[No. of customer motions attended by the office]



8 [Out-of-Court Dispute Settlement and Dispute Settlement Pursuant to the Article 38 of the Act on Regulation No. 250/2012 Coll.]

In case an end electricity or gas customer is not satisfied with the outcome of a complaint or its attendance, the customer has the right to request the Office for out-of court dispute settlement with a particular regulated entity (e.g. an electricity or gas supplier). The Office shall settle the dispute impartially. The successful settlement shall be completed with a signed written agreement binding on both parties to the dispute. The out-of-court settlement by the Office shall not impede an electricity or gas customer to settle the dispute in court.

In 2014, the Office received 29 proposals for out-of-court dispute settlement. 2 proposals did not meet the conditions laid down by the law. They were resolved as complaints, one of which was assigned to the appropriate Inspectorate of the Slovak Trade Inspection. The remaining 27 proposals were processed out-of-court, but the agreement pursuant to the Article 38 of the Act on Regulation No. 250/2012 Coll. was reached only in 3 cases and in 1 case the agreement was reached under the rules of civil law (due to a lapse of time, it was not possible to complete the out-of-court settlement by agreement pursuant to the Article 38 of the Act on Regulation No. 250/2012 Coll., however, the Office assisted in reaching the agreement between the parties under the civil law at the stage of unbiased dispute resolution). In other cases, the regulated entity opposed the out-of-court settlement from the very beginning or the customer as a petitioner did not agree with making any concession, which the regulated entity offered to provide.

The out-of-court dispute resolution takes a form of mediation with the Office acting more as an intermediary in settlement of the dispute and reaching of an agreement.

[An overview of proposals for out-of-court dispute settlements]

No. of delivered proposals for out-of-court dispute settlement pursuant the Article 37	29
No. of prop. that met the obligatory req. and were resolved pursuant the Article 37	27
No. of disputes resolved by agreement	4
No. of disputes resolved before the deadline	15
No. of pending disputes in 2014	2

Dispute resolution pursuant to the Article 38 of the Act on Regulation No. 250/2012 Coll. in 2014

Dispute resolution pursuant to the Article 38 of the Act on Regulation No. 250/2012 Coll. is different from the out-of-court dispute resolution. The main difference is that a proposal must be preceded by an attempt to reach an agreement to resolve a dispute, whereas the parties to the dispute must agree that their dispute shall be decided by the Office while meeting the condition that no more than one year has elapsed since the violation of the obligation of the party to the dispute. The Office shall resolve the dispute by issuing a binding decision on the merits of the dispute. The parties may file an appeal against the decision of the Office, which shall be decided by the court.

No proposal for settling a dispute pursuant to the Article 38 of the Act on Regulation No. 250/2012 Coll. was submitted to the Office in 2014.

9 [Business Licenses in the Network Industries]

In the area of substantive regulation, the Office is authorized to decide on issuance, amendment or cancellation of performance of regulated activities. Business in regulated activities in the electricity and gas industry may only be conducted by a legal or natural person under the license issued pursuant to the Energy Act No. 251/2012 Coll. as amended.

In 2014, the Office issued a total of 51 new licenses for the electricity and gas industry. Almost 2/3 of the new licenses were issued for electricity supply and almost all new licenses were issued for gas supply.

Confirmation of notification duty

It is also possible to conduct business in the energy industry based on a confirmation of fulfilment of the notification duty issued by the Office. The notification duty applies to both natural and legal persons that:

a) produce and supply electricity in facilities with a total installed capacity up to 1MW inclusive,
b) produce and supply gas from biomass,
c) produce and supply gas from biogas,
d) sell compressed natural gas used to fuel motor vehicles,
e) transport extracted oil from the place of extraction to a place of processing,
f) sell liquefied petroleum gas in pressure vessels,
g) sell liquefied petroleum gas used to fuel motor vehicles and also to fill a vehicle's tank by liquefied petroleum gas to fuel vehicles, except for the filling of pressure vessels
h) transport liquefied petroleum gas in pressure vessels.

In 2014, the Office issued 204 confirmations on fulfilling of the notification duty, of which 194 confirmations related to electricity production and supply in photovoltaic facilities with the installed capacity up to 1MW. A decline in a number of the issued confirmations compared to 2013 owed to lower support to this part of the electricity industry.

Business licenses in thermal energy

Similarly, it is also possible to conduct business in thermal energy on the basis of a license issued for heat production, heat production and distribution or heat distribution. In 2014, the Office issued 39 new licenses, which represents a significant increase compared to 2013 (25). Throughout 2014, 160 changes in the already issued licenses were made. The majority of them were caused by a change in technical facility capacity or identification data of a license holder.

Confirmation of registration for performance of regulated activities in water management

Pursuant to the Article 23 of the Act No. 250/2012 Coll., a person, which has an ownership or leasing relation to assets used for performance of regulated activities such as production, distribution and supply of potable water via the public water supply system and collection and treatment of waste water in the public sewage system, shall register with the Office by submitting a written request within 30 days after the assets have been listed in the accounting books or the lease agreement has been entered into.

The confirmation is requested for:

- production and supply of potable water via the public water supply system,
- distribution of potable water via the public water supply system,
- supply of potable water via the public water supply system,
- collection and treatment of waste water via the public sewage system,
- collection of waste water via the public sewage system,
- treatment of waste water supplied from the waste water treatment plants via the public sewage system.

An owner of the public water supply system or the public sewage system may transfer this obligation under

the contract signed with an operator of the public water supply system or the public sewage system, if such operator of the public water supply system or the public sewage system signed the contract on potable water supply with customers and the contract on waste water collection with producers and, at the same time, separate accounts of regulated activities are maintained.

The introduction of the obligation has made the register of the entities conducting business in the water management industry more transparent. The great majority of the entities have already been registered.

Confirmation of registration pursuant to the Article 23 of the Act on Regulation No. 250/2012 Coll.

	2013	2014
Valid confirmations of registration in total	586	616

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